

DO NOT STAPLE THIS FORM

MSRB

FORM G-36(OS) – FOR OFFICIAL STATEMENTS

05-113647

SECTION I – MATERIALS SUBMITTED

A. THIS FORM IS SUBMITTED IN CONNECTION WITH (check one)

1. ☒ A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: 5.22.00 (b) DATE SENT TO MSRB: 5.22.00

2. ☐ AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: _____ (b) DATE SENT TO MSRB: _____

B. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g., preliminary official statement and wrap, even if physically attached), PLEASE CHECK HERE. ☐

C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, PLEASE CHECK HERE (include copy of original Form G-36(OS)): ☐

SECTION II – IDENTIFICATION OF ISSUE(S)

Each issue must be listed separately. If more space is needed to list additional issues, please include on separate sheet and check here: ☐

A. NAME OF ISSUER: San Diego City & Port of Part. STATE: CA

DESCRIPTION OF ISSUE: 2000 Info Tech. System Financing DATED: 5.1.00

B. NAME OF ISSUER: _____ STATE: _____

DESCRIPTION OF ISSUE: _____ DATED: _____

C. NAME OF ISSUER: _____ STATE: _____

DESCRIPTION OF ISSUE: _____ DATED: _____

SECTION III – TRANSACTION INFORMATION

A. LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 6.1.10

B. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 5.12.00

C. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 5.25.00

D. IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE: ☐

A separate Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV – UNDERWRITING ASSESSMENT INFORMATION

This information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

A. MANAGING UNDERWRITER: A.G. Edwards & Sons, Inc. SEC. REG. NUMBER: 8-13580

B. TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING: \$ 51,620,000

C. PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from amount shown in item B above): \$ _____

D. CHECK ALL THAT APPLY

1. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent
2. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent
3. ☐ This offering is exempt from SEC Rule 15c2-12 under section ((d)(1)(i)) of that rule. Section (d)(1)(i) of SEC Rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and are sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment, and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

SECTION V - CUSIP INFORMATION

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

A. CUSIP-9 NUMBERS OF ISSUE(S)

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
6-1-01	797391T58	6-1-10	4B3		
6-1-02	TT6				
6-1-03	T43				
6-1-04	TV1				
6-1-05	TW9				
6-1-06	TX7				
6-1-07	T45				
6-1-08	T72				
6-1-09	445				

B. IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9", CHECK HERE AND LIST THEM BELOW: ☐
(Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED _____

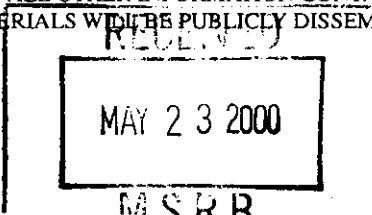
State the reason why such securities have not been assigned a "CUSIP-9" _____

C. IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE: ☐

State the reason why such securities are ineligible for CUSIP number assignment _____

SECTION VI - MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION I ABOVE AND THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED ACKNOWLEDGES THAT SAID MATERIALS WILL BE PUBLICLY DISSEMINATED.



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In the opinion of Orrick, Herrington & Sutcliffe LLP, and Harrison, Taylor and Bazile, Co-Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, the portion of each Base Rental Payment attributed to and constituting interest paid by the County under the Sublicense Agreement and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Co-Special Counsel express no opinion as to federal (or State of California personal) income tax consequences of any payments received with respect to the Certificates following termination of the County's possession under the Sublicense Agreement as a consequence of a determination by the Board of Supervisors of the County not to budget and appropriate funds sufficient to pay the Base Rental Payments and Additional Rental Payments coming due in a fiscal year. In the further opinion of Co-Special Counsel, such interest portion of each Base Rental Payment is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Special Counsel observe that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Co-Special Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of the Certificates, or the accrual or receipt of the portion of each Base Rental Payment attributable to and constituting such interest. See "Tax Matters" herein.

\$51,620,000

COUNTY OF SAN DIEGO

Certificates of Participation

(2000 Information Technology System Financing)

Evidencing Proportionate Undivided Interests of the Owners

Thereof in Base Rental Payments to be Made by the

County of San Diego to the San Diego County Capital Asset Leasing Corporation

Dated: May 1, 2000

Due: June 1, as shown below

The County of San Diego Certificates of Participation (2000 Information Technology System Financing) (the "Certificates") are being executed and delivered for the purpose of providing funds to (i) finance the acquisition and installation of servers and the acquisition and installation of certain software under the provisions of certain license agreements, (ii) pay capitalized interest with respect to a portion of the Certificates through June 1, 2001, and (iii) provide funds to pay costs of issuance incurred in connection with the delivery of the Certificates. See "The Project" and "Estimated Sources and Uses of Certificate Proceeds" herein.

Interest represented by the Certificates will be payable semiannually each June 1 and December 1, commencing on December 1, 2000. See "The Certificates" herein. The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. The Certificates will be issuable in the principal amount of \$5,000 and any integral multiple thereof. Principal and interest payments represented by the Certificates are payable directly to DTC by U.S. Bank Trust National Association, as trustee (the "Trustee") from Base Rental Payments (as defined herein). Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See Appendix D - "Book-Entry System" herein.

The Certificates are subject to extraordinary prepayment without premium prior to maturity, as described herein. The Certificates are not subject to optional prepayment. See "The Certificates - Prepayment."

The County's obligation to make Base Rental Payments and Additional Rental Payments coming due in any particular fiscal year under the Equipment Lease and Sublicense Agreement, dated as of April 1, 2000 (the "Sublicense Agreement"), by and between the County and the San Diego County Capital Asset Leasing Corporation (the "Corporation") are absolutely subject in all respects to annual appropriation by the Board of Supervisors of the County sufficient to pay the Base Rental Payments and Additional Rental Payments coming due in such fiscal year, and the County through the Board of Supervisors of the County has the right, to exercise in its sole and absolute discretion, for any reason, not to budget and appropriate such funds. If the Board of Supervisors of the County for any reason fails to duly budget and appropriate funds sufficient to pay all amounts of Base Rental Payments and Additional Rental Payments coming due in a fiscal year in its proposed or final budget, then the Sublicense Agreement shall terminate in accordance with its terms and the Financed Property shall revert to the Corporation, and the County will have no further obligation to make payments on account of the Certificates. See "Security and Sources of Payment for the Certificates" herein.

Payment of the principal and interest with respect to the Certificates when due will be insured by a municipal bond insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Certificates. See "Certificate Insurance" and Appendix F - "Form of Certificate Insurance Policy" herein.

Ambac

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL UNDER THE SUBLICENSE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL RENTAL UNDER THE SUBLICENSE AGREEMENT CONSTITUTES AN INDEBTEDNESS OF THE COUNTY. THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

MATURITY SCHEDULE

\$51,620,000 SERIAL CERTIFICATES

Due (June 1)	Principal Amount	Interest Rate	Yield	Due (June 1)	Principal Amount	Interest Rate	Yield
2001	\$3,890,000	5.00%	4.20%	2006	\$5,255,000	4.80%	4.90%
2002	4,380,000	4.50	4.55	2007	5,505,000	4.90	5.00
2003	4,575,000	4.60	4.65	2008	5,775,000	5.00	5.05
2004	4,790,000	4.70	4.75	2009	6,065,000	5.00	5.10
2005	5,015,000	4.75	4.80	2010	6,370,000	5.125	5.20

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, and Harrison, Taylor and Bazile, Oakland, California, Co-Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins, Delafield & Wood, Los Angeles, California, and for the County and the Corporation by the County Counsel. It is anticipated that the Certificates in definitive form will be available for delivery to DTC in New York, New York, on or about May 25, 2000.

AG Edwards & Sons, Inc.

**Bear, Stearns & Co. Inc.
Estrada Hinojosa & Company, Inc.**

**E. J. De La Rosa & Co., Inc.
First Albany Corporation**

**COUNTY OF SAN DIEGO
BOARD OF SUPERVISORS**

Dianne Jacob, Chairwoman	Second District
Ron Roberts, Vice-Chairman	Fourth District
Pam Slater	Third District
Greg Cox	First District
Bill Horn	Fifth District

**SAN DIEGO COUNTY CAPITAL ASSET LEASING CORPORATION
BOARD OF DIRECTORS**

Michel Anderson, Chairman
Hardy Kuykendall
Tim Considine
Morris Slayen

COUNTY OFFICIALS

Walter F. Ekard, Chief Administrative Officer
Bart J. Hartman, Treasurer - Tax Collector
William J. Kelly, Chief Financial Officer
John J. Sansone, County Counsel

SPECIAL SERVICES

Co-Special Counsel

Orrick, Herrington & Sutcliffe LLP, Los Angeles, California
Harrison, Taylor and Bazile, Oakland, California

Financial Advisor

Sutro & Co. Incorporated
Los Angeles, California

Trustee

U.S. Bank Trust National Association

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the County, the Corporation, or the Underwriters.

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. Statements contained in this Official Statement which involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information set forth herein has been provided by the County and other sources that are believed by the County to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or the Corporation since the date hereof. This Official Statement is submitted with respect to the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the County. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. Preparation of this Official Statement and its distribution have been duly authorized and approved by the County and the Corporation.

In connection with the offering of the Certificates, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Certificates at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Certificates to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the cover page hereof and such public offering prices may be changed from time to time by the Underwriters.

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\$51,620,000
COUNTY OF SAN DIEGO
Certificates of Participation
(2000 Information Technology System Financing)
Evidencing Proportionate Undivided Interests of the Owners
Thereof in Base Rental Payments to be Made by the
County of San Diego to the San Diego County Capital Asset Leasing Corporation

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Certificates being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Trust Agreement and the Sublicense Agreement. See Appendix C -- "Summary of Principal Legal Documents - Definitions."

General

This Official Statement, including the cover page and the Appendices attached hereto (the "Official Statement"), provides certain information concerning the sale and delivery of the County of San Diego Certificates of Participation (2000 Information Technology System Financing) in an aggregate principal amount of \$51,620,000 (the "Certificates"). The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of April 1, 2000 (the "Trust Agreement"), by and among the County, the San Diego County Capital Asset Leasing Corporation (the "Corporation") and U.S. Bank Trust National Association, as trustee (the "Trustee"). The County will acquire the Financed Property by leasing to the Corporation the equipment component of the Financed Property (the "Equipment") pursuant to a Lease (the "Lease") dated as of April 1, 2000, by and between the County and the Corporation, and by assigning to the Corporation certain software and software licenses (the "Software" and "Software Licenses," respectively) pursuant to an Assignment of Sublicense (the "Sublicense Assignment") dated as of April 1, 2000, by and between the County and the Corporation. The County will sublease and sublicense the Financed Property from the Corporation pursuant to an Equipment Lease and Sublicense Agreement (the "Sublicense Agreement") dated as of April 1, 2000, by and between the County and the Corporation pursuant to which the Corporation will make Base Rental Payments, as described herein. Pursuant to an Assignment Agreement (the "Assignment Agreement"), dated as of April 1, 2000, by and between the Corporation and the Trustee, the Corporation will assign to the Trustee, for the benefit of the owners of the Certificates, all of its right, title and interest in and to the Sublicense Agreement, including the right to receive Base Rental Payments under the Sublicense Agreement. The Software, the Software Licenses and the Equipment are referred to collectively herein as the "Financed Property."

The Certificates represent proportionate undivided interests of the registered owners thereof (the "Owners") in certain Base Rental Payments to be made by the County to the Corporation pursuant to the Sublicense Agreement. See "Security and Sources of Payment for the Certificates -- Base Rental Payments." The Certificates are being delivered to (i) finance the acquisition and installation of servers and the acquisition and installation of certain software under the provisions of certain license agreements, (ii) pay capitalized interest with respect to a portion of the Certificates through June 1, 2001, and (iii) provide funds to pay costs of issuance incurred in connection with the delivery of the Certificates. See "The Project" and "Estimated Sources and Uses of Certificate Proceeds" herein.

Security and Source of Payment for the Certificates

Under the Sublicense Agreement the County has agreed to make certain payments designated as Base Rental Payments and certain other payments designated as Additional Rental, in the amounts, at the times and in the manner set forth in the Sublicense Agreement. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates. The County's obligation to make Base Rental Payments and Additional Rental Payments coming due in any particular fiscal year under the Sublicense Agreement are absolutely subject in all respects to annual appropriation by the Board of Supervisors of the County sufficient to pay the Base Rental Payments and Additional Rental Payments coming due in such fiscal year, and the County through the Board of Supervisors of the County has the right, to exercise in its sole and absolute discretion, for any reason, not to budget and appropriate such funds. If the Board of Supervisors of the County for any reason fails to duly budget and appropriate funds sufficient to pay all amounts of Base Rental Payments and Additional Rental Payments coming due in a fiscal year in its proposed or final budget, then the Sublicense Agreement shall terminate in accordance with its terms and the Financed Property shall revert to the Corporation, and the County will have no further obligation to make payments on account of the Certificates. The County is not obligated to levy or pledge any form of taxation for the payment of Base Rental Payments for the Financed Property, nor has the County levied or pledged any such tax. Pursuant to an Assignment Agreement, the Corporation will assign to the Trustee, for the benefit of the Owners of the Certificates, all of its right, title and interest in and to the Sublicense Agreement, including the right to receive Base Rental Payments under the Sublicense Agreement. Pursuant to the Trust Agreement, the Trustee has agreed to distribute Base Rental Payments received from the County as principal and interest represented by the Certificates. See Appendix C -- "Summary of Principal Legal Documents - Sublicense Agreement" and "- Trust Agreement."

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL UNDER THE SUBLICENSE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL RENTAL UNDER THE SUBLICENSE AGREEMENT CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The Certificates

The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. The Certificates will be issued in the principal amount of \$5,000 and any integral multiple thereof. Principal and interest payments represented by the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See "The Certificates - General" and Appendix D - "Book-Entry System."

Certificate Insurance

The County will secure the payment of principal and interest (but not any prepayment premium) represented by the Certificates with a municipal bond insurance policy to be issued simultaneously with the delivery of the Certificates by Ambac Assurance Corporation ("Ambac Assurance"). No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Municipal Bond Insurance Policy due to nonappropriation of funds by the County. See "Certificate Insurance."

Tax Matters

For a summary of the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, and Harrison, Taylor and Bazile, Oakland, California, Co-Special Counsel, see "Tax Matters" herein.

Continuing Disclosure

The County has agreed to provide, or cause to be provided, by no later than 180 days after the end of each fiscal year to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5). See "Continuing Disclosure" herein for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made.

Miscellaneous

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Co-Special Counsel and certain other conditions. It is anticipated that the Certificates in definitive form will be available for delivery to DTC on or about May 25, 2000.

The description herein of the Trust Agreement, the Lease, the Sublicense Assignment, the Sublicense Agreement, the Continuing Disclosure Agreement and the Assignment Agreement and any other agreements relating to the Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. Copies of the documents are on file and available for inspection at the Principal Corporate Trust Office of the Trustee at U.S. Bank Trust National Association, 550 S. Hope Street, Los Angeles, California 90071; Attention: Corporate Trust Department. A summary of certain provisions of certain documents is set forth herein at Appendix C - "Summary of Principal Legal Documents."

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the County. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

THE PROJECT

The overall Project consists of the acquisition, installation and implementation of an Information Technology System for the County (the "Project") to be provided pursuant to the terms of the Contract described below. The total scheduled cost of the Project through December 12, 2007 will be approximately \$612 million. The proceeds of the Certificates will only be used to finance a portion of the Project. Approximately \$4 million of the proceeds will finance the acquisition of servers by the County. The balance of the Certificate proceeds will finance the licensing, acquisition and installation of software from various providers, and certain transition and implementation costs in connection therewith, for the County's financial system, human resources/payroll system and performance management system. The County anticipates paying the remaining costs of the overall Project from General Fund revenues.

The County currently spends approximately \$70 million annually on its information technology systems. In November 1998, the County initiated the process of outsourcing the information technology and telecommunications services of the County. The County Chief Administrative Officer recommended outsourcing services as the most effective means of achieving a major technological upgrade to existing services. The Project will replace the County's current telephone system and various outdated computer data processing and business applications. In addition, the Project is expected to provide greater ability to communicate across County offices and increased public access. The County also anticipates that the Project will reduce the number of contractors currently providing information technology services to the County and provide for a more even distribution of technology. The County also believes that the Project will allow the County to access "e-products and services." The County expects to achieve a higher service level for its information network system by this privatization plan.

In 1999, the County received and evaluated proposals for the Project. The County has selected Computer Sciences Corporation, Science Applications International Corporation, Lucent Technologies and Pacific Bell as contractors for the Project. The contractors will operate under a contract by and between the County and Computer Sciences Corporation, a Nevada corporation, dated November 10, 1999 (the "Contract"), which will serve as the prime contractor. See "Risk Factors – Performance of Contract." The Contract for the Project has a term of seven years, and provides the County the option to renew the Contract for up to three additional one year terms. Base services for the Project, which include two cycles of new desktop computers, Data Center consolidation, defined service levels and the new telephone system, are expected to cost \$553.5 million. In furtherance of the Contract and to facilitate the financing of a portion of the Project, the County and Computer Sciences Corporation will assign to the County certain software and software licenses held by Computer Sciences Corporation for the benefit of the County pursuant to a Sublicense and Assignment Agreement (the "CSC Assignment Agreement") dated as of April 1, 2000.

The Contract includes a County-wide security assessment, firewall monitoring, intrusion detection, computer usage and misuse monitoring, secure voice communications, secure remote access, new telephones with toll free access to County offices, desktops and software updates, service for computer malfunctions, expanded access to the Internet, an expanded help desk, a new finance and human resource system, and library personal computers.

ESTIMATED SOURCES AND USES OF CERTIFICATE PROCEEDS

The Certificate proceeds, exclusive of accrued interest, are expected to be applied approximately as set forth below:

SOURCES:

Principal Amount of Certificates\$51,620,000.00

TOTAL SOURCES\$51,620,000.00

USES:

Acquisition Fund.....\$50,198,741.84

Cost of Issuance Fund⁽¹⁾..... 1,110,762.24

Capitalized Interest⁽²⁾..... 131,639.32

Original Issue Discount..... 158,856.60

Administrative Expense Fund..... 20,000.00

TOTAL USES\$51,620,000.00

⁽¹⁾ Includes municipal bond insurance premium, underwriters' discount, rating agencies fees, legal fees and printing costs.

⁽²⁾ Represents capitalized interest with respect to the Certificates through June 1, 2001.

THE CERTIFICATES

The following is a summary of certain provisions of the Certificates. Reference is made to the Certificates for the complete text thereof and to the Trust Agreement for a more detailed description of such provisions. The discussion herein is qualified by such reference.

General

The Certificates evidence and represent undivided proportionate interests in the Base Rental Payments to be made by the County under the Sublicense Agreement. The Certificates shall be prepared in the form of fully registered Certificates in the denomination of \$5,000 each or any integral multiple thereof. The Certificates are dated May 1, 2000, and each Certificate shall be payable with respect to interest on June 1 and December 1 of each year, commencing on December 1, 2000.

Prepayment

Extraordinary Prepayment. The Certificates are subject to prepayment on any date prior to their respective maturity dates, as a whole, or in part, at the direction of the County, from the net proceeds of any insurance or condemnation award with respect to the Equipment or portions thereof, at a prepayment price equal to sum of the principal amount represented thereby plus accrued interest represented thereby to the date fixed for prepayment, without premium. The Certificates are not subject to optional prepayment.

Selection of Certificates for Prepayment. Whenever less than all of the Outstanding Certificates are to be prepaid on any one date, the County shall select the maturity of the Certificates or portions thereof to be prepaid, and shall provide written notice to the Trustee at least 60 days prior to the prepayment date; provided, however, that if the remaining Base Rental Payments under the Sublicense Agreement will not be reasonably level after such prepayment, the County shall deliver to the Trustee an Opinion of Counsel that the Sublicense

Agreement will continue to be a valid and binding obligation of the County after such prepayment. Such decision of the County shall be final and binding upon the Corporation, the Trustee and the Owners of the Certificates. Subject to the County's direction, the Trustee shall select specific Certificates within a maturity for prepayment by lot. For purposes of such selection, any Certificate may be prepaid in part in Authorized Denominations.

Notice of Prepayment. The Trust Agreement provides that notice of prepayment is to be given by the Trustee by first-class mail, postage prepaid, at least 30 days but not more than 60 days before the date fixed for prepayment to the Owners of Certificates designated for prepayment, in whole or in part, at their addresses appearing in the registration books of the Trustee as of the close of business on the day before such notice of prepayment is given. AS LONG AS THE CERTIFICATES REMAIN IN A BOOK-ENTRY SYSTEM, THE TRUSTEE WILL SEND SUCH NOTICE ONLY TO DTC. See Appendix D -- "Book-Entry System."

Neither the failure to receive any such notice nor any defect shall affect the sufficiency of the proceedings for the prepayment of Certificates. If notice of prepayment is given as provided in the Trust Agreement and sufficient moneys are held by the Trustee for the prepayment of all the Certificates, or portions thereof, to be prepaid, interest represented by such Certificates, or portions thereof, to be prepaid shall cease to accrue from and after the prepayment date.

BOOK-ENTRY SYSTEM

The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive Certificates representing their ownership interests in the Certificates purchased. Principal and interest payments represented by the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See Appendix D -- "Book-Entry System."

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Base Rental Payments

General. The Certificates represent the aggregate principal components of the Base Rental Payments, each evidencing and representing a proportionate, undivided interest in the Base Rental Payments to be made by the County under the Sublicense Agreement. The County is required under the Sublicense Agreement to make Base Rental Payments from legally available funds. Under the Sublicense Agreement the County has agreed to make certain payments designated as Base Rental Payments and certain other payments designated as Additional Rental, in the amounts, at the times and in the manner set forth in the Sublicense Agreement. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates. The County's obligation to make Base Rental Payments and Additional Rental Payments coming due in any particular fiscal year under the Sublicense Agreement are absolutely subject in all respects to annual appropriation by the Board of Supervisors of the County sufficient to pay the Base Rental Payments and Additional Rental Payments coming due in such fiscal year, and the County through the Board of Supervisors of the County has the right, to exercise in its sole and absolute discretion, for any reason, not to budget and appropriate such funds. The County has agreed under the Sublicense Agreement to include an appropriation for all Base Rental Payments and Additional Rental payments due in a fiscal year in its recommendation for the proposed budget for such fiscal year and will provide a certified copy of such proposed budget to the Trustee as soon as the same is available. If the Board of Supervisors of the County for any reason

fails to duly budget and appropriate funds sufficient to pay all amounts of Base Rental Payments and Additional Rental Payments coming due in a fiscal year in its proposed or final budget, then the Sublicense Agreement shall terminate in accordance with its terms. Base Rental Payments are scheduled to be paid as set forth below. See "- Base Rental Payment Schedule." THE COUNTY HAS NOT PLEDGED THE FAITH AND CREDIT OF THE COUNTY, THE STATE OR ANY AGENCY OR DEPARTMENT THEREOF TO THE PAYMENT OF SUCH BASE RENTAL PAYMENTS.

Subject to the paragraph immediately above, the Trustee, pursuant to the Trust Agreement, will receive Base Rental Payments for the benefit of the Owners. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates. The Trustee will not have any obligation or liability to the Owners to make payment of principal, premium, if any, or interest represented by the Certificates except from Base Rental Payments as and when paid by the County under the Sublicense Agreement or other amounts available to it under the Trust Agreement for such purposes; and the amounts of such payments shall be limited to amounts designated as principal and interest represented by the Certificates. Additional Rental payable by the County under the Sublicense Agreement includes amounts sufficient to pay certain taxes and assessments and certain administrative costs.

If the Board of Supervisors of the County fails to budget and appropriate sufficient funds to pay all amount of Base Rental Payments and Additional Rental payments coming due in a fiscal year in its proposed or final budget, then, the Sublicense Agreement will terminate (except as provided below) and the Financed Property shall revert to the Corporation, and neither the County nor the Corporation will have any further obligation to make payments on account of the Certificates except for Base Rental Payments already appropriated, except that the County would continue to be obligated to make Base Rental Payments but only from amounts, if any, held in the Capitalized Interest Fund and the Acquisition Fund. If the County's obligations under the Sublicense Agreement terminate, the County agrees to peaceably surrender possession of the Financed Property to the Corporation or the Trustee, as applicable, in good order and condition and in a state of repair that is consistent with prudent use and conscientious maintenance, except for reasonable wear and tear. In the event that the County fails to surrender possession of the Financed Property upon the termination of the Sublicense Agreement, to the extent permitted by law and of any available appropriation, the County will be obligated to pay holdover rent in an amount equal to the amount of Base Rental Payments and Additional Rental payments, if any, that would have been due under the Sublicense Agreement for the number of days during which the County fails to deliver possession of the Financed Property to the Corporation.

The failure of the Board to budget and appropriate funds sufficient to pay the Base Rental Payments pursuant to the Sublicense Agreement shall not constitute an event of default under the Sublicense Agreement or the Trust Agreement. Events of default under the Sublicense Agreement include: (i) the County's failure to deposit with the Trustee any Base Rental Payment required to be so deposited in accordance with the Sublicense Agreement; (ii) the County's failure to pay any item of Additional Rental when the same shall become due and payable pursuant to the Sublicense Agreement; or (iii) the County's breach of any other terms, covenants or conditions contained in the Sublicense Agreement or in the Trust Agreement, and the failure to remedy any such breach with all reasonable dispatch within a period of 30 days after written notice thereof from the Corporation to the County. Upon the occurrence of an event of default under the Sublicense Agreement, it shall be lawful for the Corporation or the Trustee as its assignee, subject to the terms of the Sublicense Agreement, to exercise any and all remedies available pursuant to law, and shall have the option to do any of the following:

(1) To terminate the Sublicense Agreement, notwithstanding any retaking of possession or re-letting of the Financed Property as provided for in subparagraph (2) below, and to retake possession of the Financed Property, upon written notice by the Corporation or the Trustee to the County of the election on the part of the Corporation or the Trustee to terminate the Sublicense Agreement, and

(2) Without terminating the Sublicense Agreement, to collect each installment of rent as it becomes due, subject to the County's right for any reason not to appropriate funds sufficient to pay all amounts of Base Rental Payments and Additional Rental Payments coming due in a fiscal year and thereby to terminate the Sublicense Agreement, and enforce any other term or provision of the Sublicense Agreement to be kept or performed by the County. In the event the Corporation or the Trustee does not elect to terminate the Sublicense Agreement in the manner provided for in subparagraph (1) then, subject to the County's right for any reason not to appropriate funds sufficient to pay all amounts of Base Rental Payments and Additional Rental Payments coming due in a fiscal year and thereby to terminate the Sublicense Agreement, the County shall remain liable and shall keep or perform all covenants and conditions under the Sublicense Agreement to be kept or performed by the County and, to pay the rent to the end of the term of the Sublicense Agreement or, in the event that the Financed Property is re-let, to pay any deficiency in rent that results therefrom but only for the then current fiscal year for which rent has been budgeted and appropriated pursuant to the Sublicense Agreement. The ability to re-let the Software is limited and subject to the terms of the respective Software licenses and the terms of certain agreements assigning certain rights thereunder to the County and the Corporation.

There is no remedy of acceleration of the total Base Rental Payments due over the term of the Sublicense Agreement, nor is the Trustee empowered to sell the software component of the Financed Property for the purpose of using the proceeds of such sale to prepay the Certificates or pay debt service thereon or otherwise. The Corporation or the Trustee may exercise all available legal and equitable rights and remedies in retaking possession of the Financed Property. Any suit for money damages would be subject to limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Base Rental Payments were due and against funds needed to serve the public welfare and interest.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL UNDER THE SUBLICENSE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL RENTAL UNDER THE SUBLICENSE AGREEMENT CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. SEE APPENDIX C-"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - SUBLICENSE AGREEMENT - RENTAL PAYMENTS."

Base Rental Payments Schedule. The Sublicense Agreement requires that each year's semi-annual Base Rental Payments be deposited with the Trustee, as assignee of the Corporation, on or before July 5 of such fiscal year (or the next Business Day if July 5 does not fall on a Business Day), commencing July 5, 2000, through the term of the Sublicense Agreement. Pursuant to the Trust Agreement and the Sublicense Agreement, the Base Rental Payments will be deposited in the Base Rental Payment Fund and applied to principal and interest payments as they become due. A table of Base Rental Payments with respect to the Certificates is set forth below:

<u>Fiscal Year (July 5)</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total Base Rental Payment</u>
2001	\$3,890,000	\$2,714,660.01	\$6,604,660.01
2002	4,380,000	2,311,340.00	6,691,340.00
2003	4,575,000	2,114,240.00	6,689,240.00
2004	4,790,000	1,903,790.00	6,693,790.00
2005	5,015,000	1,678,660.00	6,693,660.00
2006	5,255,000	1,440,447.50	6,695,447.50
2007	5,505,000	1,188,207.50	6,693,207.50
2008	5,775,000	918,462.50	6,693,462.50
2009	6,065,000	629,712.50	6,694,712.50
2010	6,370,000	326,462.50	6,696,462.50

In accordance with the Sublicense Agreement, and subject to its right to elect not to appropriate, the County is obligated to make Base Rental Payments scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates, and certain other payments designated as Additional Rental, as set forth in the Sublicense Agreement. The County has agreed to make certain payments designated as Base Rental Payments and certain other payments designated as Additional Rental, in the amounts, at the times and in the manner set forth in the Sublicense Agreement. The County's obligation to make Base Rental Payments and Additional Rental Payments coming due in any particular fiscal year under the Sublicense Agreement are absolutely subject in all respects to annual appropriation by the Board of Supervisors of the County sufficient to pay the Base Rental Payments and Additional Rental Payments coming due in such fiscal year, and the County through the Board of Supervisors of the County has the right, to exercise in its sole and absolute discretion, for any reason, not to budget and appropriate such funds. If the Board of Supervisors of the County for any reason fails to duly budget and appropriate funds sufficient to pay all amounts of Base Rental Payments and Additional Rental Payments coming due in a fiscal year in its proposed or final budget, then the Sublicense Agreement shall terminate in accordance with its terms. The County is not obligated to levy or pledge any form of taxation for the payment of rental for the Financed Property, nor has the County levied or pledged any such tax. See Appendix C - "Summary of Principal Legal Documents – Sublicense Agreement – Rental Payments."

Substitution

The County may amend the Sublicense Agreement, the Sublicense Assignment and the Lease to substitute other property (the "Substituted Property") for existing Financed Property and/or to remove property from the definition of Financed Property upon compliance with all of the conditions set forth in the Sublicense Agreement. After a substitution or removal, the part of the Financed Property for which the Substitution or Removal has been effected shall be released from the sublicense and leasehold created under the Sublicense Agreement and under the Lease. See Appendix C - "Summary of Principal Legal Documents - Sublicense Agreement - Financed Property - Substitution or Removal of Property."

CERTIFICATE INSURANCE

Payment Pursuant to Municipal Bond Insurance Policy

Ambac Assurance has made a commitment to issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the Certificates effective as of the date of execution and delivery of the Certificates. Under the terms of the Municipal Bond Insurance Policy, Ambac Assurance will pay to the United States Trust Company of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal and interest with respect to the Certificates which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Municipal Bond Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Certificates and, once issued, cannot be canceled by Ambac Assurance.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, if any, in the case of principal, and on stated dates for payment, in the case of interest. If the Certificates become subject to mandatory prepayment and insufficient funds are available for prepayment of all outstanding Certificates, Ambac Assurance will remain obligated to pay principal and interest with respect to outstanding Certificates on the originally, if any, scheduled interest and principal payment dates including mandatory sinking fund installment dates. In the event of any acceleration of the principal of the Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal or interest with respect to a Certificate which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Municipal Bond Insurance Policy does not insure any risk other than Nonpayment, as defined in the Municipal Bond Insurance Policy. Specifically, the Municipal Bond Insurance Policy does not cover:

1. Payment on acceleration, as a result of a call for prepayment (other than mandatory sinking fund prepayment) or as a result of any other advancement of maturity.
2. Payment of any redemption, prepayment or acceleration premium.
3. Nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Municipal Bond Insurance Policy, payment of principal requires surrender of Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Certificates to be registered in the name of Ambac Assurance to the extent of the payment under the Municipal Bond Insurance Policy. Payment of interest pursuant to the Municipal Bond Insurance Policy requires proof of Owner entitlement to interest payments and an appropriate assignment of the Owner's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the Owners of the Certificates with the right of payment of principal and interest with respect to the Certificates and will be fully subrogated to the surrendering Owner's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Municipal Bond Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$4,013,000,000 (unaudited) and statutory capital of approximately \$2,402,000,000 (unaudited) as of December 31, 1999. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch IBCA, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not effect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of such obligations. No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Municipal Bond Insurance Policy due to nonappropriation of funds by the County.

Ambac Assurance makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "Certificate Insurance."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and filed on March 30, 1999;
- (2) The Company's Current Report on Form 8-K dated March 24, 1999 and filed on March 24, 1999;
- (3) The Company's 1999 Proxy Statement dated March 30, 1999 and filed on March 30 1999;
- (4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 1999 and filed on May 12, 1999;
- (5) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 1999 and filed on August 13, 1999;
- (6) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 1999 and filed on November 12, 1999;
- (7) The Company's Current Report on Form 8-K dated January 26, 2000 and filed on January 27, 2000;
- (8) The Company's Quarterly Report on Form 8-K dated March 13, 2000 and filed on March 13, 2000; and
- (9) The Company's Quarterly Report on Form 8-K dated March 21, 2000 and filed on March 22, 2000.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

THE COUNTY

The County of San Diego (the "County") is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the County's northern boundary. In terms of geographical size, the County is approximately the size of the State of Connecticut. The County's Fiscal Year 1999-2000 budget is approximately \$2.6 billion.

The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer. Elected officials include the Assessor/Recorder/County Clerk, District Attorney, Sheriff and Treasurer - Tax Collector.

Many of the County's functions are required under County ordinances or by State or federal mandate. State and federally mandated programs, primarily in the social and health services areas, are directed to be maintained at certain minimum levels, which may, under some conditions, limit the County's ability to control its budget. However, under designated State and federal programs, eligible costs are subject to reimbursement according to specific guidelines.

The County is the delivery system for federal, state and local programs. The County provides a wide range of services to its residents including: probation, medical examiner, jails, elections and public health; health, welfare and human services such as mental health, senior citizen and child welfare services; basic local services such as planning, parks, libraries and Sheriff's patrol, infrastructure such as roads, waste disposal and flood control to the unincorporated area of the County, and law enforcement by contract and libraries by city's request to incorporated cities.

For certain financial information regarding the County, see "County Financial Information" below. For certain financial information regarding the County's pooled investment portfolio, see "San Diego County Investment Pool" herein. For certain economic and demographic information with respect to the County, see Appendix A -- "Economic and Demographic Information Regarding the County of San Diego" and Appendix B - "County of San Diego Audited Financial Statements for the Fiscal Year Ended June 30, 1999."

COUNTY FINANCIAL INFORMATION

The following is a description of the County's budget process, current budget, historical budget information, changes in fund balance, balance sheets, its major revenues and expenditures, indebtedness, investments and certain other financial information relating to the County.

Ad Valorem Property Taxation

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing locally assessed and State assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas, developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. In addition, the County levies and collects additional approved property taxes and assessments on behalf of any taxing agency within the County.

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after 5:00 p.m. on December 10 and April 10, respectively, and a ten percent penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes

are delinquent is declared tax-defaulted after 5:00 p.m. on June 30. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the County Treasurer-Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on September 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the taxpayer.

The following tables describe the assessed valuation of property within the County subject to taxation for fiscal year 1990-1991 through fiscal year 1999-2000, and the tax collections in such years:

**ASSESSED VALUATION OF PROPERTY
SUBJECT TO AD VALOREM TAXATION
Fiscal Years 1990-1991 through 1999-2000
(in Thousands)**

Fiscal Year	Land	Improvements	Personal Property	Gross Assessed Valuation	Exemption⁽¹⁾	Net Assessed Valuation for Tax Purposes⁽²⁾
1990-91	\$49,581,930	\$75,596,700	\$6,796,311	\$131,974,941	\$2,428,532	\$129,546,409
1991-92	54,203,463	80,619,713	6,833,127	141,656,303	2,605,200	139,051,103
1992-93	56,942,666	83,395,166	7,050,615	147,388,447	3,011,676	144,376,771
1993-94	57,882,778	84,631,884	7,028,170	149,542,832	3,521,396	146,021,436
1994-95	58,065,632	85,628,280	7,175,750	150,869,662	3,683,231	147,186,431
1995-96	58,469,323	86,585,240	7,536,344	152,590,907	3,826,612	148,764,295
1996-97	58,743,000	86,763,943	7,404,271	152,911,214	3,799,409	149,111,805
1997-98	59,965,573	87,226,802	10,222,561	157,414,936	4,512,558	152,902,378
1998-99	63,633,576	94,172,901	10,557,494	168,363,971	4,655,382	163,708,589
1999-00	70,120,054	105,048,079	10,221,397	185,389,530	4,840,800	180,548,730

Source: County of San Diego Auditor and Controller.

⁽¹⁾ Exemption figures include veterans, church, welfare, religious, college and cemetery exemptions.

⁽²⁾ Net Assessed Valuation for Tax Purposes figures include local secured, unsecured, state unitary and redevelopment valuation.

The following table shows the approximate tax levied against the ten largest taxpayers in the County for Fiscal Year 1999-2000.

TEN LARGEST TAXPAYERS
Fiscal Year 1999-2000

<u>Property Owners</u>	<u>Business Area</u>	<u>Approximate Tax</u>
San Diego Gas & Electric Company	Gas & Electric Utility	\$30,338,864.38
Southern California Edison Co.	Electric Utility	20,423,025.70
Pacific Bell	Telephone Company	17,171,585.68
Qualcomm Inc.	Telecommunications	6,227,946.08
Equitable Life Assurance Society	Real Estate	4,488,322.96
Kaiser Foundation Health Plan Inc.	Healthcare	4,009,963.82
University Towne Centre LLC	Retail	3,292,156.34
L-O Coronado Holding II, Inc.	Real Estate	3,065,710.10
Sea World Inc.	Amusement Parks	2,946,717.82
Kilroy Realty LP	Real Estate	2,847,439.42

Source: County of San Diego Auditor and Controller.

On September 24, 1996, AB 1890 (Chapter 854) was enacted into law. AB 1890 provides for the accelerated recovery of transition costs that may become uneconomic as a result of the transition of the State electric utility industry to a more competitive market structure. One of the significant costs subject to accelerated recovery is the investment in nuclear power generation facilities. The accelerated recovery of the investment in nuclear generation facilities under AB 1890 was accomplished by recognizing accelerated depreciation as of January 1, 1999. For the lien date January 1, 1999, the State Board of Equalization set the market value of the unitary property of San Diego Gas & Electric Company ("SDG&E") and Southern California Edison Company ("Edison") which jointly own 95% of the San Onofre Nuclear Generating Station (SONGS), without respect to the accelerated depreciation and deferred tax effect of AB 1890. Commencing with fiscal year 2001-2002, it is unclear what market values will be set for SONGS under AB 1890.

Secured Tax Rolls Statistics

The following table below sets forth the secured tax roll, the number of tax bills prepared, the total assessed value of property on the secured roll and the total property taxes levied on the secured roll for each of the last seven fiscal years, including the fiscal year ending on June 30, 1999 and a projection for the fiscal year ending on June 30, 2000. The table also shows the number of bills and the amount of taxes due on them that were unpaid as of the end of each fiscal year shown, and the percentage of the taxes levied for each year that were uncollected as of the fiscal year end. See also - "The Teeter Plan."

SECURED TAX ROLL STATISTICS
Fiscal Years 1993-1994 through 1999-2000

Fiscal Year	Total Bills	Total Assessed Value⁽¹⁾	Total Tax Amount⁽²⁾	Delinquent Tax Bills	Delinquent Tax Amount⁽³⁾	Delinquent Tax Amount as Percent of Tax Amount
1993-94	795,216	\$143,166,754,405	\$1,594,493,514	36,126	\$69,797,873	4.38%
1994-95	802,687	144,207,931,163	1,608,693,370	31,450	56,947,574	3.54
1995-96	805,698	145,681,809,785	1,623,328,413	30,053	46,680,249	2.88
1996-97	815,818	146,000,629,437	1,640,179,294	28,924	37,476,117	2.28
1997-98	823,332	149,611,690,276	1,685,104,282	28,715	31,933,378	1.90
1998-99	831,497	160,102,387,349	1,791,871,717	33,484	32,513,581	1.60
1999-00 ⁽⁴⁾	842,959	176,113,891,329	1,962,926,237	34,100	35,000,000	1.80

Source: County of San Diego Auditor and Controller.

(1) Total Assessed Value figures include local secured and state unitary valuation.

(2) Amount excludes penalties.

(3) Original Delinquent Tax Amounts represent the dollar value of tax due in the year shown that had not been collected as of June 30 of that year.

(4) Total Bills and Total Assessed Value figures are actual, remaining columns are estimated.

Payment Dates and Liens

Property taxes on the secured roll are due the County in two installments, on November 1st and February 1st of each fiscal year, and if unpaid become delinquent after 5:00 p.m. on December 10th and April 10th, respectively. The penalty for delinquency is 10% of the delinquent taxes (the "Default Penalty"). Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted if not paid by June 30th of the fiscal year. Such property may thereafter be redeemed by payment of (i) the taxes owed, (ii) a penalty of 1-1/2% per month from July 1 to the time of redemption (the "Redemption Penalty"), (iii) the Default Penalty, (iv) a cost charge of \$10 and (v) a redemption fee of \$15 per parcel, from which the State receives \$5 (collectively, the "Redemption Amount"). Properties may be redeemed under an installment plan by paying current taxes plus 20% of the Redemption Amount over a period of five years. A delinquent taxpayer may enter into the installment plan at any time up to the June 30 occurring five years after the property becomes tax-defaulted. The Redemption Penalty continues to accrue interest at 1-1/2% per month on the unpaid balance of the Redemption Amount during the period of the installment plan. If taxes are unpaid for a period of five years or more after a parcel first becomes tax-defaulted (or if an installment plan is in place, taxes are unpaid at the end of the plan), the property is subject to sale by the County Treasurer-Tax Collector.

Before the 1990-1991 fiscal year, the County bore the full cost of property assessment and revenue collection and distribution. State legislation enacted in 1990 allowed counties to charge cities, school districts, special districts and redevelopment agencies for their share of property tax administrative costs. Subsequent legislation permanently exempted school districts from paying property tax administrative fees. In the 1999-2000 fiscal year, the County collected approximately \$4,732,000 in such fees from cities, special districts and redevelopment agencies.

Assessed Valuations

The assessed valuation of property in the County is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported in compliance with the requirements of Proposition 13. Generally, property can be reappraised to market value only

upon a change in ownership or completion of new construction. The assessed value of property that has not incurred a change of ownership or new construction must be adjusted annually to reflect inflation at a rate not to exceed 2% per year based on the California consumer price index. In the event of declining property value caused by substantial damage, destruction, economic or other factors, the assessed value must be reduced temporarily to reflect market value. For the definition of full cash value and more information on property tax limitations and adjustments, see "Limitations on Tax Revenues."

The County Assessor determines and enrolls a value for each parcel of taxable real property in the County every year. The value review may result in a reduction in value. Taxpayers in the County also may appeal the determination of the County Assessor with respect to the assessed value of their property. Prior to 1992, assessment appeals filings in the County averaged less than 2,000 petitions annually. From 1992 to 1997 the filings averaged 22,000 per year. With the turnaround in real estate values in 1998, appeals declined, but the assessor was still required to process over 6,000 appeals in fiscal year 1999-2000. The County projects that the volume of current assessment appeals in fiscal year 2000-2001 will be sustained due to the large number of parcels which will have a restoration of their indexed base value.

As of January 1, 2000, the balance of pending applications was 2,083. This included current and prior years' filings. The County has four Assessment Appeals Boards who meet three days per week to process the applications. Waivers extending the statutory two-year processing deadline are obtained by the County for applications approaching this time limit.

The Teeter Plan

Beginning fiscal year 1993-1994, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1, of the Revenue and Taxation Code of the State of California (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year end. Under this plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and, in connection with such financing, the County's general fund receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. In addition, the County's general fund benefits from future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment.

Upon adopting the Teeter Plan in 1993, the County was required to distribute to participating local agencies, 95% of the then accumulated, secured roll property tax delinquencies and to place the remaining 5% in the tax losses reserve fund, as described below. On November 20, 1995, the County issued its Teeter Obligation Taxable Commercial Paper Notes, Series A (the "Series A Teeter Notes") and its Teeter Obligation Tax-Exempt Commercial Paper Notes, Series B (the "Series B Teeter Notes," and together with the subsequent series of its Teeter-Obligation Tax-Exempt Commercial Paper Notes, Series B, the "Teeter Obligation Commercial Paper Notes"). The Series A Teeter Notes were initially delivered in a principal amount of \$25,900,000, which amount represented then uncollected delinquencies in property taxes and assessments due to the County and the other Revenue Districts for all fiscal years of the County ended on and prior to June 30, 1993 for which the County had provided funds pursuant to the Law, exclusive of Default Penalties thereon. Proceeds received from the initial sale of the Series A Teeter Notes were applied first to refund the principal amount of the Debenture issued to refund the County's obligation to fund the delinquencies in property taxes, assessments and other levies due to the County and the other Revenue Districts pursuant to the Law for all fiscal years of the County ended on and prior to June 30, 1993 (the "Initial Debenture), with remaining amounts to pay costs in connection with the initial issuance of the Series A Teeter Notes. The Series B Teeter Notes were initially delivered in a principal amount of \$42,400,000, exclusive of Default Penalties thereon. Proceeds received from

the initial sale of the Series B Teeter Notes were applied to refund the remaining Debentures attributable to the fiscal years ended June 30, 1994 and June 30, 1995 and to pay costs in connection with the initial issuance of the Series B Teeter Notes. There are no Series A Teeter Notes outstanding and the County will not issue any additional Series A Teeter Notes. Beginning in June 1996 and each June thereafter, including on June 11, 1999, the County has issued additional Teeter Obligation Commercial Paper Notes to refund the demand obligations attributable to the fiscal year then ending and to pay costs in connection with the issuance of such additional Teeter Obligation Commercial Paper Notes. The County expects to issue additional Teeter Obligation Commercial Paper Note obligations in June 2000 to refund the demand obligations attributable to the fiscal year ending June 30, 2000 and to pay costs in connection with the issuance of such additional Teeter Obligation Commercial Paper Notes. As of May 9, 2000, \$32,400,000 aggregate principal amount of the Series B Teeter Notes were outstanding.

The Teeter Obligation Commercial Paper Notes and the interest thereon are on a parity in right of payment from the General Fund with all other obligations of the County payable from the General Fund, except County obligations to set aside amounts therefor and to repay tax and revenue anticipation notes which it may issue from time to time for working capital purposes in accordance with applicable law, which are senior to the County's Commercial Paper Notes and other General Fund obligations, including the obligation to make Base Rental payments.

The Teeter Obligation Commercial Paper Notes have a first priority lien on Series B Taxes and certain amounts deposited in the Series B Pledge Fund held by the Fiscal Agent. "Series B Taxes" means (i) the right to collect any uncollected property taxes and assessments attributable to the fiscal years ended June 30, 1994 through June 30, 1999, and such other fiscal years, if any, as may be specified in a Supplemental Resolution, for which the County actually provided funding pursuant to Section 4705 of the California Revenue and Taxation Code (the "Law"), and Default Penalties thereon, (ii) all amounts received by the County upon the sale of property to recover such property taxes or assessments, (iii) all amounts received by the County upon redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (iv) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default under the Reimbursement Agreement dated June 22, 1998 by and between Landesbank Hessen-Thüringen Girozentrale (the "Bank") and the County (the "Reimbursement Agreement"), or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law. Series B Taxes do not include Other Taxes. "Other Taxes" means (i) the right to collect delinquent property taxes and assessments due to the County and other Revenue Districts and attributable to the fiscal years ending after June 30, 1996 (except for such amounts which are defined as "Series B Taxes" or otherwise excluded from the definition of "Other Taxes"), for which the County actually provides funding pursuant to the Law and Default Penalties thereon, (ii) all amounts received by the County upon the sale of property to recover such property taxes or assessments, and (iii) all amounts received by the County upon the redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (iv) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default under the Reimbursement Agreement or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid in as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law.

Pursuant to the Law, the County is required to establish a tax losses reserve fund to cover losses which may occur in the amount of tax liens as a result of special sales of tax-defaulted property (*i.e.*, if the sale price of the property is less than the amount owed). The amount required to be on deposit in the tax losses reserve fund

is, at the election of the County, one of the following amounts: (1) an amount not less than 1% of the total amount of taxes and assessments levied on the secured roll for a particular year for entities participating in the Teeter Plan, or (2) an amount not less than 25% of the total delinquent secured taxes and assessments calculated as of the end of the fiscal year for entities participating in the Teeter Plan. The County's tax losses reserve fund will be fully funded, in accordance with the County's election to be governed by the second alternative, at \$5.8 million as of June 30, 2000. Accordingly, any additional penalties and interest that otherwise would be credited to the tax losses reserve fund are credited to the County's General Fund.

Financial Statements

The following financial statements were developed from the Chief Financial Officer's "Annual Financial Report" and other official public records. Pertinent sections of the general purpose financial statements of the County for the year ended June 30, 1999 are attached to this Official Statement as Appendix B. The following statements are for informational purposes only and do not constitute the complete financial statements of the County.

**GENERAL FUND
COMBINED BALANCE SHEET
June 30, 1998 and June 30, 1999
(in Thousands)**

ASSETS	<u>1998</u>	<u>1999</u>
Cash	\$ 53,073	\$ 101,931
Cash with Fiscal Agent ⁽¹⁾	231,746	180,081
Taxes Receivable	242	461
Accounts Receivable	160,615	165,558
Loans Receivable	689	689
Due from Other Funds ⁽¹⁾⁽²⁾	103,600	90,084
Deposits with Others	--	--
Inventories-Materials and Supplies	<u>10,039</u>	<u>7,694</u>
 TOTAL ASSETS	 <u>\$ 560,004</u>	 <u>\$546,498</u>
 LIABILITIES AND EQUITIES		
Accounts Payable	\$ 25,481	\$ 31,983
Accrued Payroll	19,706	24,109
Amount Due for Tax and Revenue Anticipation Notes ⁽¹⁾	227,531	176,978
Due to Other Funds	32,459	14,106
Deferred Revenue	33,742	18,276
Fund Balance-Unavailable Encumbrances	47,916	56,092
Fund Balance-Unavailable Reserves	17,316	14,965
Fund Balance-Available	<u>155,853</u>	<u>209,989</u>
 TOTAL LIABILITIES AND EQUITIES	 <u>\$ 560,004</u>	 <u>\$ 546,498</u>

Source: County of San Diego Auditor and Controller.

⁽¹⁾ Consistent with National Council on Governmental Accounting Interpretation No. 9, the liability for tax and revenue anticipation notes outstanding at June 30 is displayed in the General Fund and offset by a corresponding asset recorded as cash with fiscal agent representing the pledged amounts. In the prior year, pledged amounts were maintained in a separate pledge fund of the County.

⁽²⁾ Represents receivables and payables between General Fund and other County funds based on actual or estimated claims outstanding.

GENERAL FUND
COMPARISON OF REVENUES, EXPENDITURES AND FUND BALANCES
For Fiscal Years 1995-1996 through 1998-1999
(in Thousands)

SOURCES OF FUNDS	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>
Fund Balances				
Reserved for Encumbrance	\$ 54,379	\$ 59,492	\$ 33,290	\$ 47,916
Unreserved	43,323	50,678	64,391	155,853
Taxes	275,298	270,881	284,970	302,044
Licenses, Permits and franchises	20,311	20,958	21,034	22,087
Fines, Forfeitures and Penalties	16,248	21,100	21,849	19,267
Use of Money and Property	17,093	14,289	26,236	21,478
Aid from Other Gov't Agencies	1,407,391	1,387,493	1,344,981	1,289,314
Charges for Current Services	153,101	152,129	174,468	191,123
Other Revenue	13,719	24,778	15,966	27,485
Sale of Fixed Assets	--	--	--	--
Operating Transfers-in ⁽¹⁾	37,749	40,951	25,583	2,877
Issuance of Lease Purchases ⁽²⁾	1,849	6,653	4,226	3,856
Long Term Debt Proceeds	--	--	--	--
TOTAL SOURCES	<u>\$2,040,461</u>	<u>\$2,049,402</u>	<u>\$2,016,994</u>	<u>\$2,083,300</u>
USES OF FUNDS				
General	\$ 171,373	\$ 184,397	\$ 181,031	\$ 182,528
Public Protection	476,290	500,763	535,863	564,060
Public Ways and Facilities	1,335	1,181	1,458	1,964
Health and Sanitation	249,569	253,828	281,363	304,631
Public Assistance	943,789	865,278	759,389	645,312
Education	238	228	270	259
Recreation and Cultural Services	6,222	6,281	8,094	8,459
Capital Outlay	1,849	6,653	4,226	3,856
Debt Service	16,866	15,196	14,249	10,482
Other	--	--	--	--
Operating Transfers-out ⁽¹⁾	53,730	114,547	85,367	86,384
TOTAL USES	<u>\$1,921,261</u>	<u>\$1,948,352</u>	<u>\$1,871,310</u>	<u>\$1,807,935</u>

Source: County of San Diego, Auditor and Controller.

⁽¹⁾ "Operating Transfers-in" consist primarily of funds transferred from the Accumulated Capital Outlay Fund, the Sheriff Asset Forfeiture Fund, Parkland Dedication Funds, and, beginning in Fiscal Year 1995-1996, the Trial Court Operations Special Revenue Fund.

"Operating Transfers-out" consist primarily of transfers to the Accumulated Capital Outlay Fund.

⁽²⁾ Excludes refundings.

1998-1999 Fiscal Year Financial Summary – General Fund

The information under this heading is based on the audited financial statements of the County.

For Fiscal Year 1998-1999, County revenues of \$1,872.8 million exceeded expenditures of \$1,721.6 million by \$151.2 million. Other uses totaled \$79.6 million, for a net positive addition to the General Fund balance of \$71.6 million. After other equity deductions that total \$11.6 million, total General Fund equity and other credits was \$281.0 million at June 30, 1999, a net increase of \$59.9 million over the Fiscal Year 1997-1998 ending General Fund balance of \$221.1.

Significant elements of County operations in Fiscal Year 1998-1999, based on information from audited financial statements, include:

1. A reduction of the County's welfare caseload because of the recent changes and restructuring of the Federal and State Welfare System. This translates into a net decrease of \$55.7 million over the previous fiscal year in the "Aid from the Federal Government" revenue category.
2. Increases over Fiscal Year 1997-1998 in a number of revenue categories because of the strong economy and real estate markets in the County. Most significantly, the "Taxes" category increased by \$17.0 million, with all of the increase due to "Current Secured Property Taxes." The "Charges for Current Services" category increased by \$16.6 million due to increases in a number of categories, including \$3.9 million in real property recording fees.
3. Decreases of \$4.8 million in revenue from "Use of Money and Property" and \$3.8 million in expenditures for debt service from the levels of Fiscal Year 1997-1998. Both categories are tied to the amount of debt issued by the County. County short-term debt issuance of tax and revenue anticipation notes declined in Fiscal Year 1998-1999 to \$175 million from \$225 million in the previous fiscal year.
4. Public protection expenditures increased \$28.1 million from Fiscal Year 1997-1998 and Health related expenditures increased \$23.3 million from Fiscal Year 1997-1998. Expenditures for public assistance declined by \$113.5 million for the same period due to structural and fundamental changes in Federal and State welfare systems.

1999-2000 Fiscal Year Financial Summary

Based on the first nine months of the fiscal year, the County currently expects the Fiscal Year 1999-2000 General Fund to end in a strong financial position, with positive operating balances of \$78 million and \$33.3 million in group management reserves. \$111.5 million in County contingency and operational reserves are projected for the June 30, 2000 fiscal year end. The County's management team is continuing its efforts to reduce costs and increase productivity through reengineering and outsourcing, and anticipates that it will be able to further improve the County's year-end financial status. Significant positive and negative components of the County's projected fiscal status include:

1. Increases in all categories of secured roll property tax revenues due to activity and strength in local real estate markets. The combination of regular and supplemental secured property taxes are expected to be \$3.0 million over budget, a positive variance of 1.4% for these two revenue categories. Real property transfer tax revenue, which is based on the value of real

property transfers, is expected to be substantially over budget by \$1.1 million or 8.3% over projected amounts.

2. Increased vehicle license fee ("VLF") revenues. VLF revenues are distributed by the State to cities and counties and are expected to show a positive budget variance of 14.1%.
3. Interest on deposits and investments has increased \$6.9 million or 55% over the budget projection.
4. A one-time discretionary item was designated for local agencies in the State's Fiscal Year 1999-2000 budget. The County has received its allocation of \$4.2 million.
5. The County has received \$39 million as its first payments under the settlement of the tobacco litigation ("Settlement") brought by states' Attorneys General against major tobacco companies. At the direction of the Board of Supervisors, all funds received in the Settlement will be directed to a variety of health-related programs.

2000-2001 Fiscal Year Operational Plan

The County's operational plan (the "Operational Plan") describes the financial plan for the next two fiscal years. The County's proposed Operational Plan for Fiscal Years 2000-2001 and 2000-2002 will be presented to the County Board of Supervisors on May 16, 2000. Public hearings on the proposed Operational Plan will commence on May 30, 2000 and final deliberations will begin on June 19, 2000. The proposed Operational Plan for Fiscal Year 2000-2001 is \$155.4 million or 7.5% higher than the 1999-2000 Operational Plan. Key assumptions and components of the proposed Operational Plan and comparisons with the 1999-2000 Operational Plan include the following:

1. The gross regional product will experience growth of approximately 4.5%;
2. The County unemployment rate will remain below both California and national levels;
3. The County is completing a two-year program to eliminate a backlog of deferred major maintenance;
4. Total General Revenues (revenues not tied to a specific County program) will increase by \$47 million and \$32.2 million, to \$535.1 million and \$567.3 million in Fiscal Year 2000-2001 and 2001-2002, respectively;
5. Key General Revenue categories will increase in Fiscal Year 2000-2001 by 10% (\$23 million) for current secured property taxes and 5.5% (\$8 million) for vehicle license fee (VLF) revenues;
6. Reduction of public assistance costs will continue under implementation of Federal welfare provisions that reflect decreased caseload and stabilized general relief assistance benefits; and
7. The County will maintain a designation of \$50 million and appropriate an operational contingency reserve of \$11 million. Both reserves have been set aside for any unforeseen catastrophic situations and for economic and operational uncertainties during Fiscal Year 2000-2001.

General Fund Budget

The County General Fund finances the legally authorized activities of the County not provided for in other restricted funds. General Fund revenues are derived from such sources as taxes, licenses and permits, fines, forfeits and penalties, use of money and property, aid from other governmental agencies, charges for current services and other revenue. General Fund expenditure and encumbrances are classified by the functions of public safety, health and human services, land use and environment, community services, finance and general government and other.

The Board of Supervisors is required by State law to adopt a balanced annual budget no later than September 30 of each year. The Board of Supervisors may, by resolution, extend the date of adoption of a balanced budget to October 2. The Board of Supervisors adopted the County's fiscal year 1999-2000 and 2000-2001 Operational Plan on August 3, 1999. The Board of Supervisors is further required to set tax rates by September 1 in accordance with Article XIII A of the California Constitution. See "County Financial Information - Ad Valorem Property Taxation" herein.

Since the budget must be in balance, any shortfall in revenues requires a reduction in appropriations. No increase in the aggregate appropriations can be made after the final budget has been adopted unless the County has received written certification of additional revenue from the sources of such revenue.

In order to ensure that the budget remains in balance throughout the fiscal year, quarterly reviews are made covering actual receipts and expenditures. In the event of any shortfall in projected revenue, immediate steps are taken to reduce appropriations. Appropriation reductions would be achieved through a combination of hiring freezes, employee layoffs, and freezes on the purchase of equipment, services and supplies. California counties are not permitted by State law to impose fees to raise general revenue, but only to recover the costs of regulation or provision of services. The Chief Financial Officer is responsible for monitoring and reporting expenditures within budgeted appropriations.

The following table shows the County's General Fund budgets for fiscal years 1999-2000 and 2000-2001.

**COUNTY OF SAN DIEGO
GENERAL FUND BUDGET
Fiscal Year 1999-2000 and Fiscal Year 2000-2001
(in Thousands)**

	Final Budget <u>1999-2000</u>	Proposed Budget <u>2000-2001</u>
APPROPRIATIONS		
Public Safety	\$ 650,835	\$ 688,619
Health & Human Services	1,092,197	1,187,375
Land Use & Environment	64,473	88,191
Community Services	31,412	29,143
Finance and General Government and Other	221,135	231,814
Appropriation for Contingencies and Designation	<u>20,728</u>	<u>11,000</u>
Total Appropriations	<u>\$2,080,780</u>	<u>\$2,236,142</u>
 REVENUES		
Current Property Taxes	\$ 260,664	\$ 283,501
Taxes other than Current Property Taxes	49,244	53,598
Licenses, Permits & Franchises	20,622	22,879
Fines & Forfeitures	25,668	27,478
Use of Money & Property	14,446	22,145
Aid from other Government Agencies	1,431,123	1,552,249
Charges for Current Service	173,992	184,373
Other Revenues	<u>35,584</u>	<u>52,236</u>
Total Revenues	<u>\$2,011,343</u>	<u>\$2,198,459</u>
 Estimated Fund Balance Available	<u>69,437</u>	<u>37,683</u>
 Total Available Financing	<u>\$2,080,780</u>	<u>\$2,236,142</u>

Source: County of San Diego Auditor and Controller.

Approved Vehicle License Fee Reduction

On September 20, 1998, the Governor approved a 25% reduction in Vehicle License Fee ("VLF"), beginning on January 1, 1999. An additional 10% reduction took effect in January 2000. The VLF is an annual fee on the ownership of a registered vehicle in California. Automobiles, motorcycles, pick-up trucks, commercial trucks and trailers, rental cars and taxicabs are all subject to the VLF. The VLF revenues are distributed by the State to cities and counties. Approximately three-fourths of the VLF revenues are general revenues and can be used for any purpose, with the remaining funds used to pay for "realignment" Health and Social Services program.

In 1998-1999, VLF revenues in the State were expected to total over \$3.9 billion. This permanent reduction was backfilled by State general tax revenue, so that counties and cities see no reduction in revenues.

The County's Operational Plan for Fiscal Year ending June 2000, anticipates \$198 million in VLF. VLF represents the second largest source of general revenues (after property taxes). The County utilizes the general revenues (approximately \$134 million) to fund various County-wide programs, and utilizes "realignment" revenues (\$64 million) to fund health, mental health, medical and social service programs. As was indicated above, the State's General Fund will pay local governments for lost VLF revenues on a dollar per dollar matching basis, from State general fund revenues. The repayment funds will be continuous appropriations, however, this is not a firm guarantee of a continuing replacement. Thus, in future years there could be a loss by local governments of State general fund revenues to offset lost VLF fees.

Trial Court Funding

The State legislature enacted a bill to reform funding for local trial courts ("AB 233"). AB 233, also known as the Trial Court Funding Act of 1997, became effective January 1, 1998. It transfers financial responsibility from counties to the State for local trial court funding commencing in Fiscal Year 1997-1998. Under such legislation, the State will assume a greater degree of the financial and operational responsibility for trial court operations costs. The County realized a net positive fiscal impact of approximately \$26 million in Fiscal Year 1998-1999 as a result of AB 233. An additional \$4.8 million net positive financial impact will be realized in Fiscal Year 1999-2000. The County will continue to be obligated to provide facilities for all judicial officers and support positions created prior to July 1, 1996. However, under AB 233, the State is required to finance any new expenditures with respect to capital needs of new judicial officers and support positions created after July 1, 1996. No further net positive financial impact is currently anticipated as a result of AB 233.

Retirement Program

The employees retirement system of the County, established July 1, 1939 under provisions of the County Employees' Retirement Law of 1937, is a contributory type plan covering substantially all permanent employees. The plan is integrated with the federal Social Security System. For Fiscal Year 1998-1999, contributions to the retirement fund amounted to approximately \$78.2 million by the County and \$7.3 million by employee members. There were 16,579 active members, 8,292 retired members and 2,653 deferred members as of June 30, 1999.

The retirement system operates on a fiscal year basis and has an actuarial valuation prepared annually. At June 30, 1999, the date of the most recent actuarial valuation report, the actuarial accrued liability was approximately \$3.0 billion and was 107% funded. The County is expected to receive a credit to its General Fund of approximately \$41.8 million as a result of overfunding of its actuarial liability, such credit to be realized over the five years commencing with fiscal year 1998-1999; however, the availability of any such credit in future years may be impacted by the resolution of certain lawsuits described below. The County's method for computing actual contributions (level percentages) results in the employer contribution remaining approximately level from generation to generation as a percentage of the active employee payroll. The actuarially computed liabilities are based upon assumptions, which make provisions for future salary increases resulting from inflationary factors. The level of funding available for the retirement system is a function of a number of factors, including duration of employment, assumptions regarding costs of living and the performance of the stock market. Additional costs resulting from retiree health insurance and death benefits are paid on a current basis from surplus investment earnings in the fund.

In the case of *Ventura County Deputy Sheriff's Association v. Board of Retirement of Ventura County Employees' Retirement Association* (the "Ventura case"), the California Supreme Court recently held that certain payments made by a county in excess of basic salary payments to employees are to be included in the definition of final compensation within the meaning of the Retirement Law. Consequently, the County may be required to increase the amount of payments to the retirement fund for the benefit of its employees in the current fiscal year

and future fiscal years. The California Supreme Court did not determine whether its holding in the Ventura case was to be applied retroactively. In the event that the Ventura case requires that benefits be increased for past services, the County's pension benefit obligation may be increased. As a result, the County may be required to make payments to the retirement fund over a period of time to pay for these additional benefits. The County estimates, based upon a preliminary review of the Ventura case, that the potential financial impact of a prospective application of the Ventura case is approximately \$5,000,000. Accordingly, the County does not expect any prospective application of the Ventura case to adversely affect the County's ability to make Base Rental Payments as and when due.

In 1998 there were three lawsuits filed against the San Diego County Employees Retirement Association. The cases are Stapel (the "Stapel case"), Scheidel (the "Scheidel case"), and Deputy Sheriffs' Association (the "DSA case"). The County of San Diego is the real party interest in each of these matters. All three San Diego cases request that the Ventura case be made retroactive to those members who retired prior to that decision. The Stapel case requests benefits be included in retirement calculations for members who retired after October 1, 1994, while the Scheidel case requests inclusion of benefits for retired allowance calculations back to members' retirement dates before October 1, 1994. The DSA case requests inclusion of the additional benefits in retirement calculations after October 1, 1994 for retirees and active employees. These cases have been consolidated into one class action matter that has been coordinated in the County of San Francisco Superior Court with all other counties and retirement systems' matters that have not settled. A hearing on certain aspects of this case is scheduled for June. An adverse outcome in one or more of the consolidated cases could have an adverse impact on the County's financial position.

The potential unfunded liability for the retroactive three-year period from October 1, 1994 to October 1, 1997, and for future payments to persons retired prior to the effective date established by the Ventura case for the pay categories set forth in the Ventura case is \$5.4 million. Liability for inclusion of other additional pay categories such as terminal vacation and sick leave, employer pick-up of employee contributions, cafeteria plan benefits, and insurance premiums of management could increase the amount to approximately \$222 million for retirees. This figure does not reflect the potential unfunded liability if the retirement allowances were to be increased from retirement dates before October 1, 1994, interest that may be required to be paid on arrears benefits, or the deduction of possible retirees' arrears contributions.

There will be additional increased potential unfunded liability for prospective application if terminal vacation and sick leave, employer pick-up of employee contributions, cafeteria plan benefits, and insurance premiums of management are required to be included in the final compensation of active employees. These additional categories could increase the County's potential unfunded liability to the retirement fund by approximately \$277.5 million if terminal leave for only the final compensation period is included, or \$677.5 million if all terminal leave were to be included. These figures do not reflect any deduction of active employees' arrears contributions that may be required.

Shown below are the County contributions to the retirement system for recent fiscal years and the level of contributions anticipated for fiscal year 1999-2000.

COUNTY OF SAN DIEGO EMPLOYER CONTRIBUTIONS TO RETIREMENT SYSTEM

1990-91	\$ 78,046,026
1991-92	92,482,653
1992-93	97,499,000
1993-94	89,267,603
1994-95	80,992,355
1995-96 ⁽¹⁾	103,692,355
1996-97 ⁽¹⁾	101,609,873
1997-98 ⁽¹⁾	107,254,394
1998-99 ⁽¹⁾⁽²⁾	80,936,548
1999-00 ⁽¹⁾⁽²⁾⁽³⁾	85,155,720

Source: County of San Diego Auditor and Controller.

⁽¹⁾ Includes principal and interest payments on the County's Taxable Pension Obligation Bonds.

⁽²⁾ Reduction due to credit from County Retirement System.

⁽³⁾ Estimated.

Investments of the retirement system are recorded at fair value, net of brokerage commissions and other costs normally incurred in a sale, based upon closing sale proceeds reported on recognized securities exchanges on the last business day of the period, or for listed securities having no sales reported and for unlisted securities, based upon last reported bid prices. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("S&P") presently rates the County's retirement system's ability to meet its financial commitments "AA+." The approximate fair value of all investments held by the retirement system, as of June 30, 1999 was as follows:

Domestic equity	\$1,744,551,000
International equity	923,627,000
Fixed Income	937,861,000
Real Estate	146,178,000
Other	<u>60,304,000</u>
Total Investments	<u>\$3,812,521,000</u>

Risk Management

The County is required to obtain and maintain various types of insurance coverage in connection with project lease financings of the County. In accordance with Government Accounting Standards Board Statement 10, "Accounting and Financial Reporting for Risk Financing and Relating Insurance Items," the County established internal service funds ("ISF") to report all of its uninsured risk management activities. An actuarial evaluation estimated that at June 30, 1999 claims of \$65.2 million, including \$17.7 million in public liability and \$47.5 million in workers' compensation, were probable, resulting in a financial loss to the County. This estimate was based partially on the experience of similar governmental entities. As of the same date, the ISF had an ending balance of \$40 million, resulting in an unfunded liability of approximately \$26 million. The estimate of claims liabilities were recorded in the ISF. In addition, there is a potential gross liability of \$67 to \$123 million, which could result if unfavorable adjudication were rendered for pending legal actions. See Appendix B -- "County of San Diego Audited Financial Statements for the Fiscal Year ended June 30, 1999" at footnote 4(A)1 and 4(B).

The County is required to obtain and maintain public liability insurance and workers compensation insurance under various of its financing lease obligations. These financing leases generally require public liability insurance to be issued by a responsible carrier or be in the form of self-insurance or self-funding to cover claims for damages including death, personal injury, bodily injury, or property damage arising from operations involving the facilities covered by such leases, affording protection with a combined single limit loss of not less than \$5,000,000 per occurrence with respect to bodily injury, death or property damage liability. In addition, these financing leases generally require the County to obtain and maintain workers compensation insurance issued by a responsible carrier or in the form of self-insurance or self-funding to cover all persons employed by the County in connection with the facilities covered by such leases and to cover full liability for compensation under the act requiring workers' compensation. Any self-insurance or self-funding for these risks is subject to certain conditions, including, but not limited to, providing evidence of self-insurance and of appropriation of such funds as may be necessary for self-funding and annual certification to the trustee with respect to such financing leases by the County's risk management officer or an independent insurance consultant of the sufficiency of coverage.

The County does not carry liability insurance for premises liability, medical malpractice, errors and omissions, false arrest, general liability or workers compensation. Accordingly, the County may not be in compliance with these insurance provisions. However, in 1996 the County adopted a ten-year phased funding program to fund the unfunded liability in its ISF. The County has deposited the following amounts into its ISF: \$2 million in fiscal year 1996-1997, \$4 million in fiscal year 1997-1998, \$6 million in fiscal year 1998-1999, and \$8 million in fiscal year 1999-2000. The County intends to deposit \$8 million in fiscal year 2000-2001 and annually thereafter until the full unfunded liability in the ISF is eliminated. See Appendix B -- "County of San Diego Audited Financial Statements for the Fiscal Year ended June 30, 1999" at footnotes 2(C) and 4(B).

County of San Diego Employees

The following table lists the number of County employees for the fiscal years ending June 30, 1990 to 1999:

TOTAL COUNTY EMPLOYEES

<u>June 30</u>	<u>Total Employees</u>
1990	16,607
1991	17,150
1992	17,022
1993	16,999
1994	17,256
1995	16,470
1996	17,626
1997	17,623
1998	17,775
1999	18,049

Source: County of San Diego Auditor and Controller.

County employees are represented by eight unions representing 22 bargaining units. The unions represent approximately 85% of the County's approximately 18,000 employees and include the San Diego County Deputy Sheriffs' Association; Social Services Union, Local 535, SEIU, AFL-CIO; Deputy District Attorneys Association; San Diego Probation Officers' Association, SEIU, Local 2028, AFL-CIO and CLC; District Attorney Investigators Association; Service Employees International Union, Local 2028, AFL-CIO and CLC; Deputy County Counsels Association; and, the Public Defender Association of San Diego County.

Labor agreements are in place for most unions, through June 30, 2001 covering approximately 16,000 employees. The Deputy Sheriffs' Association and the District Attorney Investigators Association have agreements through June 30, 2000. The remainder of all employees are unrepresented.

Short-Term Borrowing

The County issued its 1999-2000 Tax and Revenue Anticipation Notes (the "2000 TRANs") in the aggregate principal amount of \$130,000,000, all of which are outstanding and scheduled to mature on September 30, 2000. The 2000 TRANs were issued for the purpose of financing seasonal cash flow requirements for general fund expenditures during the fiscal year ending June 30, 2000. The 2000 TRANs are obligations of the County but are payable only out of taxes, income, revenue, cash receipts and other moneys of the County attributable to Fiscal Year 1999-2000 and legally available for payment thereof (exclusive of any moneys required to be used to repay any Treasurer's Loan and exclusive of moneys pledged to the Teeter Obligation Commercial Paper Notes, as described herein)("Unrestricted Revenues").

Section 6 of Article XVI of the California Constitution provides for intrafund borrowing (a Treasurer's Loan) to cover short-term operational deficits occurring as a result of imbalances between receipts and expenditures. The California Constitution prohibits interfund borrowing by counties after the last Monday of April of each fiscal year, and of amounts in excess of 85% of revenues accrued. During the 1990's, the County has utilized Treasurer's Loans from time to time for various purposes, including the financing of County library programs and other County programs. The largest Treasurer's Loan since fiscal year 1994-1995 was for \$25,000,000. Should the County find it necessary to use a Treasurer's Loan, then such borrowing, pursuant to the California Constitution, must be repaid from the first County revenues received thereafter before any other obligation, including the Notes, is paid from such revenues.

General Obligation Debt, Lease Obligations and Long-Term Loans

The County has no outstanding general obligation bonds. Starting with the financing of the El Cajon Administrative Building in 1955, the County has made use of various lease arrangements with certain financing entities, such as, joint powers authorities, the Corporation or similar nonprofit corporation, the County Employees' Retirement Association, a redevelopment agency and private parties to finance capital project needs. Under these arrangements, the financing entity usually constructs or acquires capital assets with the proceeds of lease revenue bonds or certificates of participation and then leases the asset or assets to the County. As of June 30, 1999, annual long term lease payments of the County for Fiscal Year 1998-1999 amounted to approximately \$98 million and there was approximately \$1.1 billion aggregate principal amount of long-term general fund obligations outstanding. The annual payments for the obligations will aggregate \$109 million in Fiscal Year 1999-2000.

A summary of general fund long-term obligations payable from the general fund is presented as follows:

**SUMMARY OF GENERAL LONG-TERM OBLIGATIONS
PAYABLE FROM THE GENERAL FUND**

**January 1, 2000
(in Thousands)**

CERTIFICATES OF PARTICIPATION:	Interest Rates	Final Maturity Date	Original Principal Amount	Principal Amount Outstanding
San Diego County Capital Asset Leasing Corporation				
1991 Interim Justice Refunding, issued September 1991	4.80-6.50	2007	\$ 38,045	\$ 24,765
1993 Series A, issued March 1993	3.00-5.75	2013	7,640	6,040
1993 Vista Building, issued March 1993	3.25-5.10	2007	26,085	17,040
1993 Master Refunding, issued May 1993	2.50-5.625	2012	203,400	136,660
1996 Regional Communication System, issued May 1996	4.30-5.50	2018	52,230	48,845
1996 North & East County Courthouse, issued December 1996	4.30-5.60	2019	37,690	36,630
1997 Master Refunding, issued June 1997	4.00-4.80	2004	28,035	21,515
1997 Jail Refunding, issued July 1997	4.00-5.42	2025	80,675	77,425
1998 Downtown Courthouse Refunding, issued December 1998	4.00-4.50	2023	73,115	68,095
1999 East Mesa, issued September 1999	3.60-4.75	2009	<u>15,010</u>	<u>15,010</u>
Total Certificates of Participation			<u>\$ 608,890</u>	<u>\$ 492,140</u>
CAPITALIZED LEASES:				
San Diego Regional Building Authority Lease, MTS Tower Refunding issued October 1991	4.60-6.363	2019	46,965	40,115
THIRD PARTY FINANCING LEASES:				
Motorola Corporation				
Lease beginning December 1995	5.65	2011	39,772	34,069
Other capitalized leases with various beginning dates from December 1991 to the present	4.54-8.00	2000-2007	<u>17,324</u>	<u>15,083</u>
Total Capitalized Leases			<u>\$ 104,061</u>	<u>\$ 89,267</u>
PENSION BONDS:				
San Diego Pension Obligation Bonds, Series A, issued February 1994	4.70-6.60	2007	\$ 430,430	\$ 347,305
REVENUE BONDS:				
Redevelopment Agency Series 1995	4.75-6.75	2020	5,100	4,870
OTHER:				
Accumulated Unpaid Employee Leave Benefits			--	315
Landfill Closure				101,000
Arbitrage Rebate			<u>0</u>	<u>0</u>
TOTAL GENERAL LONG-TERM DEBT			<u>\$1,107,842</u>	<u>\$1,034,897</u>

Source: County of San Diego Auditor and Controller.

In addition to the long-term general fund obligations and liabilities listed in the above table, the County has various other liabilities. See Appendix B—"County of San Diego Audited Financial Statements for the Fiscal Year ended June 30, 1999" attached hereto.

Recent Financings

On July 1, 1999, the County issued its 2000 TRANS in the amount of \$130,000,000. See "Short-Term Borrowing" herein. On September 15, 1999, the County issued its Certificates of Participation (1999 East Mesa Refunding) in an aggregate principal amount of \$15,010,000 to provide funds to refund the outstanding principal amount of the County of San Diego 1989 Certificates of Participation (East Mesa Detention Facility Refunding Project).

Anticipated Financings

On May 25, 2000, the County expects to issue its \$19,000,000 Variable Rate Demand Certificates of Participation (2000 San Pasqual Academy Project) to finance the acquisition of certain real property and certain buildings, structures and improvements thereon and to renovate certain portions thereof for use as a facility for foster youth. In addition, the County expects to issue its 2000-2001 Tax and Revenue Anticipation Notes on or about July 3, 2000 to finance seasonal cash flow requirements for its general fund expenditures during the fiscal year ending 2001. The County also expects to issue additional Series B Teeter Note obligations in June 2000 to refund the demand obligations attributable to the fiscal year ending June 30, 2000 and to pay costs in connection with the issuance of such Series B Teeter Notes.

Direct and Overlapping Debt

The County contains numerous municipalities, school districts and special purpose districts such as water districts, all of which have issued general obligation bonds. Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. as of February 1, 2000. The Debt Report is included for general information purposes only. The County has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the County in whole or in part. Such long term obligations generally are not payable from revenues of the County (except as indicated) nor are they necessarily obligations secured by land within the County. In many cases long term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

COUNTY OF SAN DIEGO ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(as of February 1, 2000)

1999-00 Assessed Valuation: \$180,548,729,772 (includes unitary utility valuation)
 Redevelopment Incremental Valuation: 9,860,839,890
 Adjusted Assessed Valuation: \$170,687,889,882

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 2/1/00</u>
Metropolitan Water District	17.309%	\$ 100,052,078
San Diego County Water Authority	100.	6,165,000
San Diego Unified School District	100.	139,995,085
San Diego Unified School District Lease Tax Obligations	100.	233,390,000
San Marcos Unified School District School Facilities Improvement District No. 1	100.	21,223,019
Unified School Districts	100.	29,668,696
Union High School Districts	100.	71,700,117
School Districts	100.	126,698,306
Otay Municipal Water District Improvement Districts	100.	12,210,000
Other Municipal Water Districts	100.	5,555,000
City of San Diego	100.	19,170,000
Other Cities	100.	5,750,000
San Diego Open Space Park Facilities District	100.	49,530,000
Other Special Districts	100.	2,175,000
Community Facilities Districts	100.	526,685,000
1915 Act Bonds (Estimated)	100.	<u>240,275,542</u>
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT		\$1,590,242,843
Less: San Diego Open Space Park Facilities District (100% self-supporting)		49,530,000
Self-supporting water bonds		<u>35,000</u>
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT		\$1,540,677,843

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>			
San Diego County General Fund Obligations	100.	%	\$ 507,030,625 (1)
San Diego County Pension Obligations	100.		347,305,000
San Diego County Superintendent of School Obligations	100.		2,222,500
Community College District Certificates of Participation	100.		36,270,000
San Diego Unified School District Certificates of Participation	100.		60,775,000
Other Unified School District Certificates of Participation	100.		45,678,641
High School District Certificates of Participation	100.		38,476,500
School District Certificates of Participation	100.		74,788,447
Municipal Water District Certificates of Participation	100.		31,615,000
City of San Diego General Fund Obligations	100.		403,125,000
City of Escondido General Fund Obligations	100.		86,832,120
Other City General Fund Obligations	100.		278,231,282
San Miguel Consolidated Fire Protection District Certificates of Participation	100.		11,165,000
Fallbrook Sanitary District Certificates of Participation	100.		<u>11,895,000</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT			\$1,935,410,115
Less: Otay Municipal Water District Certificates of Participation (100% self-supporting)			27,790,000
Grossmont Union High School District Certificates of Participation (100% self-supporting from tax increment revenues)			7,389,000
City of San Diego Authority Bonds (100% self-supporting)			2,235,000
City of Oceanside Certificates of Participation			<u>3,555,000</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT			\$1,894,441,115

GROSS COMBINED TOTAL DEBT	\$3,525,652,958 (2)
NET COMBINED TOTAL DEBT	\$3,435,118,958

(1) Excludes general fund obligations to be sold.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 1999-00 Assessed Valuation:

Total Gross Direct and Overlapping Tax and Assessment Debt	0.88%
Total Net Direct and Overlapping Tax and Assessment Debt	0.85%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$854,335,625)	0.50%
Gross Combined Total Debt	2.07%
Net Combined Total Debt	2.01%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/99: \$8,911,215

Source: California Municipal Statistics, Inc.

SUPPLEMENTAL FINANCIAL INFORMATION

The following information concerning the State of California's budgets has been obtained from publicly available information which the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information.

State Budget for Fiscal Year 1999-2000

The 1999-2000 State Budget was signed by Governor Davis on June 29, 1999. The total spending plan of approximately \$81.3 billion represents an increase of approximately 42% from the 1998-1999 State Budget, with a corresponding increase in the State's General Fund to approximately \$63 billion. In addition, the State Budget projects a balance in the State's budget reserve of more than \$2.4 billion on June 30, 1999. Furthermore, the State Budget provides for approximately \$303 million in tax reductions for 1999-2000, which includes an additional 10% offset in the Vehicle License Fee for 2000 resulting in a cumulative 35% cut from 1998 base levels, as well as a one-year reduction in vehicle license fees for certain commercial motor vehicles. The Budget also provides a special fund of \$881 million for economic uncertainties.

Overall, General Fund revenues and transfers represent approximately 77% of total State revenues. The remaining 23% are special funds dedicated to specific programs. The three largest revenue sources (personal income, sales and bank and corporation taxes) account for about 72% of total revenues. Personal income tax revenues are expected to increase by 7.9% for fiscal year 1999-2000 to \$32.914 billion. Sales and use tax revenue is projected to increase by 5.8% to \$19.96 billion in fiscal year 1999-2000. Bank and corporation taxes are anticipated to increase from \$5.522 billion in fiscal year 1998-1999 to \$5.751 billion in fiscal year 1999-2000, an increase of 4.1%.

The principal features of the 1999-2000 Budget include:

1. Approximately \$37.9 billion is devoted to California's 994 school districts, resulting in estimated total per pupil expenditures from all sources of \$6,025 in Fiscal Year 1999-2000, or a \$274 increase from the 1998-99 per-student amount. The \$37.9 billion figure reflects a

\$2.3 billion increase in the K-12 portion of Proposition 98 funding, a 6.5% increase over the current year. The General Fund comprises approximately 70%, or \$26.4 billion, of the total guarantee, while the balance is funded from local property taxes.

2. The University of California's (UC) General Fund budget increased by \$184 million, a 7.3% increase, while California State University (CSU) received a 5.9% General Fund increase of \$126 million. In addition, total funding for California Community Colleges increased by \$324.3 million, an increase of 6.6% over the last fiscal year. The Budget also provided over \$50 million to reduce enrollment fees at UC and CSU, bringing fees to their lowest level since 1992-93.
3. In addition to the \$50 million provided in the 1998-99 Budget, \$425 million was allocated to capitalize the California Infrastructure and Economic Development Bank. The Bank will use these funds to generate approximately \$1.9 billion in low interest loans to local agencies to assist with needed infrastructure to support economic development.
4. Approximately \$157 million was allocated to begin a restoration of California's State Parks, including deferred maintenance, cultural heritage and natural heritage projects.
5. A \$213.2 million allocation will expand The Healthy Families Program which provides health care coverage to children in low-income families. In addition, \$82 million was provided to increase the maximum allowable income for Medi-Cal eligibility from 70% to 100% of the federal poverty level for two-parent families. Other health and welfare provisions included \$249.4 million to expand HIV/AIDS education, prevention, care and treatment services.
6. Capital outlay expenditures were increased by \$1.3 billion or 49% over 1998-99, while grants to local transportation agencies for local street and highway projects were increased by \$599 million, or approximately 44%.
7. Trial Court funding received an allocation of \$128 million to fund workload increases, Year 2000 compliance systems, new judgeships and increased courtroom security. In addition, local law enforcement agencies will receive \$30 million in grants to address equipment needs, and \$38.7 million was allocated to corrections reform projects.

State Budget for Fiscal Year 2000-2001

On January 10, 2000, Governor Davis transmitted his proposed 2000-2001 State Budget (the "2000-2001 Proposed Budget") to the State Legislature. The total spending plan of approximately \$85.1 billion represents an increase of approximately 3.7% from the 1999-2000 State Budget. Approximately 80% of the spending plan relies on the General Fund and approximately 20% on special funds dedicated to specific programs. The 2000-2001 Proposed Budget assumes that General Fund revenues will total \$68.2 billion, a 4.7% increase from 1999-2000. Expenditures from the General Fund are proposed to be \$68.8 billion, an increase of 4.5% from 1999-2000. After accounting for set asides, the year-end reserve is estimated to be \$1.2 billion, representing approximately 1.8% of total projected 2000-2001 General Fund revenues.

The principal features of the 2000-2001 Budget include:

1. The 2000-2001 Proposed Budget provides for a 6% increase in K-12 expenditures from all funding sources. Proposition 98 allocations, including local property tax revenues, to K-12 schools total \$35.8 billion in the 2000-2001 Proposed Budget, representing an increase of over

\$1.9 billion, or 5.7%, from 1999-2000. Per pupil spending under the 2000-2001 Proposed Budget would increase from 1999-2000 levels of \$6,045 to \$6,313, representing a 4.4% increase. The 2000-2001 Proposed Budget proposes Proposition 98 spending that exceeds the estimated minimum funding guarantee by \$257 million.

2. The University of California's (UC) General Fund budget would increase under the 2000-2001 Proposed Budget by 14.8%, and the California State University budget would increase under the 2000-2001 Proposed Budget by 8.7%. The 2000-2001 Proposed Budget also allocates \$75 million annually to construct the California Institutes for Science and Innovation at three UC campuses, and provides \$25 million in one-time funds for UC teaching hospitals to purchase new equipment. In addition, \$25 million is allocated for K-12 teacher training on the effective use of educational technology.
3. The CalWORKs program, under the 2000-2001 Proposed Budget, is allotted \$2.1 billion in General Fund expenditures, representing a 3.9% increase from 1999-2000. The 2000-2001 Proposed Budget also includes 3.6% statutory COLA, effective in October 2000. Assuming enactment of legislation prohibiting counties from earning new performance incentive payments until the estimated prior obligation of incentive payments owed to the counties (approximately \$364 million) has been satisfied, the resulting savings to the General Fund is estimated to be \$496 million.
4. The 2000-2001 Proposed Budget provides for Medi-Cal spending of \$8.7 billion in 2000-2001. This represents an increase of 6.6% from 1999-2000. The 2000-2001 Proposed Budget also includes funding to cover substantial increases in prescription drug costs.

May Revision to 2000-2001 Proposed State Budget

On May 15, 2000, Governor Davis announced his May Revision (the "May Revision") to the 2000-2001 Proposed Budget. The May Revision to the 2000-2001 Proposed Budget provides updated economic and revenue forecasts to reflect the continued growth of the State's economy and an estimated increase in revenues of \$5.8 billion. In addition, the May Revision provides the latest information on state expenditures for the current and coming fiscal years.

Economic growth in California continues to post substantial gains and there are few signs that growth will slow in the near future. Forecasts of most key economic indicators in the 2000-2001 Proposed Budget have been revised upward to reflect the state's strong economy. California job growth is now forecast at 3.4%, compared to 2.9% in the 2000-2001 Proposed Budget. General Fund revenues are now expected to be greater than the levels forecast in the 2000-2001 Proposed Budget by \$5.764 billion for the 1999-2000 fiscal year, and \$5.554 billion for the 2000-2001 fiscal year, for a combined increase of \$11.318 billion. Primary factors contributing to the increase in General Fund revenues include an increase in capital gains and strong stock market activity. Capital gains realizations are estimated at \$84 billion in 1999, compared to \$17 billion five years ago. Stock options are estimated to have reached \$51 billion in 1999. The capital gains and stock market activity sectors have generated approximately \$12 billion, or 17% of all General Fund revenues. The personal income tax forecast was increased by \$4.437 billion in 1999-2000 and \$4.882 billion in 2000-01, for a combined increase of \$9.319 billion. Personal income growth is revised to 7.8 %, up from the earlier forecast of a 6.6% gain. In addition, the sales and use tax revenue forecast for the May Revision has been increased by \$648 million in 1999-2000 and reduced by \$18 million for 2000-2001, for a combined gain of \$630 million. The bank and corporation tax forecast was increased by \$563 million in 1999-2000 and \$564 million in 2000-2001 for a total increase of \$1.127 billion.

The principal features of the May Revision include:

1. A two-year total Proposition 98 increase of \$3.8 billion over the original Proposed Budget. The May Revision proposes total Proposition 98 spending of \$42.7 billion in 2000-2001, which includes \$1.1 billion in spending above the required guarantee level. This augmentation will become a permanent part of the ongoing Proposition 98 base amount. The \$3.8 billion total includes a \$1.4 billion increase for 1999-2000 and \$2.4 billion for 2000-2001. The revised K-12 dollars per pupil increases by \$359 above the January estimate to \$6,285 in 1999-2000, and a 16% increase above the final 1998-99 figure of \$5,756 per pupil.
2. A one-time prosperity income tax rebate of \$1.76 billion in 2000-2001 for approximately 12.3 million California taxpayers. Single taxpayers will receive \$150 and married couples filing jointly will receive \$300, or the amount of their 1999 tax liability, if that amount is lower. In addition, \$154 million is allocated for expanded assistance to senior homeowners and renters.
3. A proposal to exempt all wages received by fully credentialed teachers for teaching in K-12 public schools, from state personal income taxes. This program is estimated to result in a revenue reduction of \$545 million in the budget year.
4. A pay-as-you-go funding for the Governor's Traffic Congestion Relief Plan. The May Revision provides \$1.94 billion as a first-year installment in the five-year \$5.3 billion plan. The plan will fund 100 locally recommended projects throughout the State.
5. A \$115 million allocation to eliminate certain reporting requirements for Medi-Cal working families which will ensure that 250,000 children and 150,000 adults retain coverage. The May Revision also reflects a \$101.4 million provision to enhance the quality of life for California's mentally ill. Total General Fund expenditures proposes for Health and Human Services are now \$20.2 billion.
6. A \$75 million set-aside for counties to build, renovate or expand local juvenile detention facilities.
7. A \$500 million allocation to increase the supply and affordability of various housing options throughout the State.
8. A \$125 million proposal for the cleanup and redevelopment of contaminated land. In addition, \$75 million is allocated, to be matched with non-state funds, to provide \$150 million for the acquisition of open space, wildlife habitat and park lands.

Changes in State Budget

The State has in prior years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs theretofore borne by the State. No prediction can be made as to whether the State will encounter budgetary problems for the 2000-2001 fiscal year and if it does, it is not clear what measures will be taken by the State to balance the budget as required by law. The County cannot predict the ultimate impact of the State's budget on its finances and operations. However, the County does not expect variations in State aid to have a material effect on its ability to repay the Certificates.

SAN DIEGO COUNTY INVESTMENT POOL

General

Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors delegated to the Treasurer the authority to invest and reinvest funds of the County. Applicable law limits this delegation of authority to a one-year period and must be renewed annually by action of the Board of Supervisors. In addition to funds of the County (and the various departments in the County, such as Public Works and Public Administration), funds of certain local agencies within the County, including school districts in the County, are required under state law to be deposited into the County treasury ("Involuntary Depositors"). In addition, certain agencies, including community college districts, invest certain of their funds in the County treasury on a voluntary basis ("Voluntary Depositors" and together with the Involuntary Depositors, the "Depositors"). Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the "Treasury Pool" or the "Pool"). No particular deposits are segregated for separate investment.

Under State law, Depositors in the Pool are permitted to withdraw funds which they have deposited on 30 days notice. The County does not expect that the Pool will encounter liquidity shortfalls based on its current portfolio and investment guidelines or realize any losses that may be required to be allocated among all Depositors in the Pool.

The County has established an Oversight Committee as required by State law. The members of the Oversight Committee include the Treasurer, the Chief Financial Officer, members of the public, and a representative from a special district and a school district. The role of the Oversight Committee is to review and monitor the Investment Policy that is prepared by the Treasurer.

The Treasury Pool's Portfolio

As of April 30, 2000, the securities in the Treasury Pool had a market value of \$2,494,067,817 and a book value of \$2,503,689,953, for a net unrealized loss of .39% or \$8,381,082 of the book value of the Treasury Pool. As of April 30, 2000, the weighted average maturity of the Pool portfolio was approximately 165 days. As of April 30, 2000, 29.86% of the Pool was invested in securities with maturities ranging from 1-30 days, 29.89% of the Pool was invested in securities with maturities ranging from 31-90 days, 5.73% of the Pool was invested in securities with maturities ranging from 91-180 days, 20.40% of the Pool was invested in securities with maturities ranging from 181-365 days, 10.95% of the Pool was invested in securities with maturities ranging from 366 days to 2 years, and 3.17% of the Pool was invested in securities with maturities between 2 and 3 years.

The duration for the Treasury Pool was .43 years as of April 30, 2000. "Duration" is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of .43 means that for every one percent increase in interest rates the market value of the portfolio would decrease by .43 percent.

As of April 30, 2000, approximately 10.62% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts, 4.89% by community colleges, 32.12% by the County, and 41.43% by K-12 school districts.

In 1999, Fitch IBCA, Inc. rated the Pool's ability to meet its financial commitments "AAA" (long-term) and "V1 +" (short-term volatility).

Investments of the Treasury Pool

Authorized Investments. Investments of the Pool are placed in those securities authorized by various sections of the California Government Code, which include obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), asset backed (including mortgage related) and pass-through securities. Generally, investments in any repurchase agreement may not exceed a term of one year and the security underlying the agreement shall be valued at 102% or greater of the funds borrowed against the security and the value of the repurchase agreement shall be adjusted no less than quarterly. In addition, reverse repurchase agreement generally may not exceed 20% of the base value of the portfolio and the term of the agreement may not exceed 92 days. Securities lending transactions are considered reverse repurchase agreements for purposes of this limitation. Base Value is deferred as the total cash balance excluding any amounts borrowed (i.e., amounts obtained through selling securities by way of reverse repurchase agreements or other similar borrowing methods).

Legislation which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the California State Legislature. Therefore, there can be no assurances that the current investments in the Treasury Pool will not vary significantly from the investments described herein.

The Investment Policy. The County's Investment Policy (the "Investment Policy") (which may be modified, amended, or otherwise changed at any time at the sole discretion of the Treasurer) currently states the primary goals of the Treasurer when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve a return on the funds under the control of the Treasurer within the parameters of prudent risk management. The Investment Policy contains a goal that 52% of the Pool should be invested in securities maturing in one year or less, with the remainder of the portfolio being invested in debt securities with maturities spread approximately equally over more than one year to five years. With respect to reverse repurchase agreements, the Investment Policy provides for a maximum maturity of 92 days (unless the reverse repurchase agreement includes a written guarantee of a minimum earning or spread for the entire period of such agreement) and a limitation on the total amount of reverse repurchase agreements to 20% of the total investments in the Pool. The Investment Policy states that the purpose of reverse repurchase agreements is to supplement the yield on securities owned by the Pool or to provide funds for the immediate payment of an obligation and that the maturity of the reverse repurchase agreement and the maturity of the security purchased be the same.

The Investment Policy also authorizes investments in covered call options or put options, which are options on the part of a third party to buy from the Pool a specified security within a finite time at a specified price. Under the Investment Policy, securities subject to covered calls are not to be used for reverse repurchase agreements, cash sufficient to pay for outstanding puts are to be invested in securities maturing on or before the expiration date of the option, the maximum maturity of a covered call option/put option is to be 90 days and not more than 10% of the total investments in the Pool could have options (in contrast to "derivatives") written against them at any one time.

The County from time to time has engaged in securities lending transactions. Generally, these transactions involve the transfer by the governmental entity, through an agent, of securities to certain broker-dealers and financial institutions or other entities in exchange for collateral, and this collateral may be cash or securities. Most commonly, these transactions provide for the return of the collateral to the securities borrower upon receipt of the same securities at a later date. Presently, the County has suspended its securities lending

transactions program, but may decide to enter into a securities lending agreement with another custodian in the future. Any such securities lending transactions are considered reverse repurchase agreements under the Investment Policy and, accordingly, the total principal amount of reverse repurchase agreements and securities lending agreements may not exceed 20% of the Pool. Since the inception of the County's securities lending program in 1987, there has not been any loss of principal to the Pool resulting from these securities lending transactions or the investment of the related collateral.

Certain Information Relating to Pool

The following table reflects information with respect to the Pool as of April 30, 2000. **As described above, a wide range of investments is authorized by state law. Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described below.** In addition, the values specified in the following tables were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on April 30, 2000, the Pool necessarily would have received the values specified.

SAN DIEGO COUNTY INVESTMENT POOL PORTFOLIO INFORMATION
as of April 30, 2000

	Percent of Portfolio	Book Value	Market Price	Accrued Interest	Market Value	Unrealized Gain/(Loss)	Yield To Maturity	Average Days To Maturity
Federal Farm Credit Bank Notes	0.59%	\$ 14,830,505	97.59%	\$ 110,500	\$ 14,639,100	(\$191,405)	6.08%	498
Federal Home Loan Bank Notes	9.38	236,130,244	98.81	2,434,159	233,884,235	(2,241,198)	6.36	632
Federal Home Loan Mortg. Corp. Notes	9.31	234,914,569	98.76	3,548,956	232,087,288	(2,827,282)	5.53	409
Federal Nat'l Mortgage Assoc. Notes	11.26	283,530,514	99.08	5,692,904	280,917,542	(2,612,972)	5.22	248
Corporate Medium Term Notes	7.55	188,687,209	99.88	4,866,410	188,274,090	(208,879)	5.90	55
Money Market Funds	0.75	18,800,000	100.00	186,485	18,800,000	0	5.97	1
Repurchase Agreements	9.62	240,000,000	100.00	122,850	240,000,000	0	6.14	1
Negotiable Certificates of Deposit	15.41	385,961,477	99.80	9,699,566	384,237,000	(692,473)	6.12	115
Commercial Paper	36.11	900,143,435	99.43	0	900,542,562	393,127	6.16	38
Collateralized Certificates of Deposit	0.03	686,000	100.00	1,399	686,000	0	5.37	78
Totals For April 2000	100.00%	\$2,503,689,953	99.41%	\$26,663,229	\$2,494,067,817	(\$8,381,082)	5.98%	165
Totals For March 2000	100.00%	\$2,095,415,903	99.23%	\$22,974,004	\$2,084,569,512	(\$9,323,770)	5.95%	210
Change From Prior Month		\$ 408,274,051	0.18%		\$ 409,498,305	\$942,688	0.03%	-45
Overall Portfolio Duration	0.43 years							

	April '00 Return	Fiscal Year To Date	Calendar Year To Date	Annualized Return	Annualized Return
Book Value	0.495%	4.635%	1.972%	5.547%	5.948%
Market Value	0.691	5.443	2.344	6.514	7.071

Source: County of San Diego, Treasurer-Tax Collector.

LIMITATIONS ON TAX REVENUES

Article XIII A

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975/1976 tax bill under "full cash value," or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of "sites" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. The County is unable to predict the nature or magnitude of future revenue sources which may be provided by the State of California (the "State") to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Article XIII B

On November 6, 1979, California voters approved Proposition 4, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is the 1978-1979 fiscal year. Increases in appropriations by a governmental entity are also permitted (i) if financial responsibility for providing services is transferred to the governmental entity, or (ii) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on

indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues and (iii) certain State subventions received by local governments. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

As amended in June 1990, the appropriations limit for the County in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the County's option, either (i) the percentage change in California per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the County over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

Proposition 46

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school districts may increase the property tax rate above 1% for the period necessary to retire new general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the County be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after September 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, required a two-thirds voter approval. Because the tax received an affirmative vote of only 54.1%, this special tax was found to be invalid.

Since the adoption of Proposition 62, the County enacted an increase in the transient occupancy tax from 8% to 9% without a vote. In fiscal year 1997-1998, the last fiscal year for which audited financial statements are available, the County received \$2.3 million in transient occupancy tax revenue. See Appendix B – “County of San Diego Audited Financial Statements for the Fiscal Year ended June 30, 1998.” The County believes that any effect on the ability of the County to collect this increase in the transient occupancy tax will not adversely affect the ability of the County to pay the Certificates as and when due.

Right to Vote on Taxes Initiative-Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 adds Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions affecting the ability of local governments, including the County, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 became effective on November 6, 1996. Senate Bill 919 was enacted to provide certain implementing provisions for Proposition 218 and became effective July 1, 1997. The County is unable to predict whether and to what extent Proposition 218 may be held to be constitutional or how its terms will be interpreted and applied by the courts. Proposition 218 could substantially restrict the County's ability to raise future revenues and could subject certain existing sources of revenue to reduction or repeal, and increase the County's costs to hold elections, calculate fees and assessments, notify the public and defend its fees and assessments in court. Further, as described below, Proposition 218 provides for broad initiative powers to reduce or repeal assessments, fees and charges. This initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. However, other than any impact resulting from the exercise of this initiative power, presently the County does not believe that the potential financial impact on the financial condition of the County as a result of the provisions of Proposition 218 will adversely affect the County's ability to pay the principal of and interest with respect to the Certificates as and when due and its other obligations payable from the General Fund.

Article XIII C of Proposition 218 requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes, including special taxes deposited into the County's General Fund. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995 and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years of November 6, 1996. The County has not enacted imposed, extended or increased any tax without voter approval since January 1, 1995. These voter approval requirements of Proposition 218 reduce the flexibility of the County to raise revenues through General Fund taxes, and no assurance can be given that the County will be able to raise such taxes in the future to meet increased expenditure requirements.

Article XIII C of Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes

and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in *Rossi v. Brown* by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the County's General Fund. Further, "fees" and "charges" are not defined in Article XIII C or SB 919, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIII C as they do in Article XIII D, as described below. Accordingly, the scope of the initiative power under Article XIII C could include all sources of General Fund moneys not received from or imposed by the federal or State government or derived from investment income.

The initiative power granted under Article XIII C of Proposition 218, by its terms, applies to all local taxes, assessments, fees and charges and is not limited to local taxes, assessments, fees and charges that are property related. The County is unable to predict whether the courts will interpret the initiative provision to be limited to property-related fees and charges. No assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges which are deposited into the County's General Fund. The County believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Proposition 218 are reduced or substantially reduced, the financial condition of the County, including its General Fund, would be materially adversely affected. As a result, there can be no assurances that the County would be able to pay the principal of and interest represented by the Base Rental Payments of the Certificates as and when due or any of its other obligations payable from the General Fund.

Article XIII D of Proposition 218 adds several new requirements making it generally more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assess" is defined in Proposition 218 and SB 919 to mean any levy or charge upon real property for a special benefit conferred upon the real property. This includes maintenance assessments imposed in County service areas and in special districts. In most instances, in the event that the County is unable to collect assessment revenues relating to specific programs as a consequence of Proposition 219, the County will curtail such services rather than use amounts in the General Fund to finance such programs. Accordingly, the County anticipates that any impact Proposition 218 may have on existing or future taxes, fees, and assessments will not adversely affect the ability of the County to pay the principal of and interest represented by the Certificates as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the assessments that presently finance them are reduced or repealed.

Article XIII D of Proposition 218 also adds several provisions affecting "fees" and "charges" which are defined as "any levy other than an *ad valorem* tax, a special tax, or an assessment, imposed by [a local government] upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and, after June 30, 1998, existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the

owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The County must then hold a hearing upon the proposed imposition or increase of such property based fee, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the County may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The annual amount of revenues that are received by the County and deposited into its General Fund which may be considered to be property related fees under Article XIII D of Proposition 218 is not substantial. Accordingly, presently the County does not anticipate that any impact Proposition 218 may have on future fees and charges will adversely affect the ability of the County to pay the principal of and interest represented by the Certificates as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

The County has a clean water enterprise fund which is self-supporting from fees and charges that may ultimately be determined to be property related for purposes of Article XIII D of proposition 218. Further, the fees and charges of the County's enterprise funds, including those which are not property related for purposes of Article XIII D of Proposition 218, may be determined to be fees and charges subject to the initiative power as provided in Article XIII C of Proposition 218, as described above. In the event that fees and charges cannot be appropriately increased or are reduced pursuant to the exercise of the initiative power, the County may have to choose whether to reduce or eliminate the service financed by such fees or charges or finance such service from its General Fund. Further, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

Additional implementing legislation respecting Proposition 218 may be introduced in the State legislature from time to time that would supplement and add provisions to California statutory law. No assurance may be given as to the terms of such legislation or its potential impact on the County.

Future Initiatives

Article XIII A, Article XIII B and Propositions 46, 62 and 218 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the County or local districts to increase revenues or to increase appropriations which may affect the County's revenues or its ability to expend its revenues.

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Certificates.

Not a Pledge of Taxes

The County's obligation to pay Base Rental Payments or Additional Rental does not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation. The obligation of the County to pay Base Rental Payments

or Additional Rental does not constitute a debt or indebtedness of the County, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Additional Obligations of the County

The County has the capability to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the County, the funds available to make Base Rental Payments may be decreased.

The Base Rental Payments and other payments due under the Sublicense Agreement (including payment of costs of repair and maintenance of the Financed Property, taxes and other governmental charges levied against the Financed Property) are payable from funds lawfully available to the County. In the event that the amounts which the County is obligated to pay in a fiscal year exceed the County's revenues for such year, the County may choose to make some payments rather than making other payments, including Base Rental Payments, based on the perceived needs of the County. The same result could occur if, because of California Constitutional limits on expenditures, the County is not permitted to appropriate and spend all of its available revenues.

Limitations on Remedies

The rights of the owners of the Certificates are subject to the limitations on legal remedies against counties in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Certificates, and the obligations incurred by the County, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county. The County may invest, and direct the Trustee to invest, amounts held in the Base Rental Payment Fund, the Capitalized Interest Fund, the Acquisition Fund and the Administrative Expense Fund in the Treasury Pool, which amounts are pledged to repay the Certificates. In the event of a petition for the adjustment of County debts under Chapter 9 of the federal bankruptcy code, a court might hold that the Owners of the Certificates do not have a valid lien on the amounts held in such funds where such amounts are deposited in the Treasury Pool and may not provide the Owners of the Certificates with a priority interest in such amounts. In such instance, unless such Owners could "trace" the funds, the Owners would be only unsecured creditors of the County. There can be no assurance that the Owners could successfully so "trace" the amounts representing amounts held in such funds.

Nonappropriation Risk; Tax Effect

Under the Sublicense Agreement, while the County is obligated to include a fiscal year's Base Rental Payments and Additional Rental payments in each year's proposed budget, the Board of Supervisors of the County has the complete discretion to elect not to appropriate payments due under the Sublicense Agreement. See "Security and Sources of Payment For The Certificates – General." Should that occur, the County's obligations under the Sublicense Agreement will terminate (except as provided below) and the Financed Property shall revert to the Corporation, and neither the County nor the Corporation would have any further obligation to make payments on account of the Certificates except for Base Rental Payments already appropriated, except that the County would continue to be obligated to make Base Rental Payments but only from amounts, if any, held in the Capitalized Interest Fund and the Acquisition Fund. If the County's obligations under the Sublicense Agreement terminate, the County agrees to peaceably surrender possession of the Financed Property to the Corporation or the Trustee, as applicable, in good order and condition and in a state of repair that is consistent with prudent use and conscientious maintenance, except for reasonable wear and tear. In the event that the County fails to surrender possession of the Financed Property upon the termination of the Sublicense Agreement, to the extent permitted by law and of any available appropriation, the County will be obligated to pay holdover rent in an amount equal to the amount of Base Rental Payments and Additional Rental payments, if any, that would have been due under the Sublicense Agreement for the number of days during which the County fails to deliver possession of the Financed Property to the Corporation.

The circumstances under which the County may elect to not appropriate Base Rental Payments under the Sublicense Agreement, and therefore give up possession of the Financed Property, may be dependent upon various factors including, but not limited to, perceived future benefits to the County of the continued utilization of the Financed Property, obsolescence of the Financed Property, satisfactory operation of the Financed Property, continuing performance by Computer Sciences Corporation in accordance with the terms of the Contract, and competing demands for County revenues.

Upon termination of the County's possession under the Sublicense Agreement as a consequence of a failure by the Board of Supervisors of the County not to budget and appropriate funds sufficient to pay the Base Rental Payments and Additional Rental Payments coming due in a fiscal year, there is no assurance that payments made by the Trustee (from amounts, if any, held in the Capitalized Interest Fund or the Acquisition Fund) or by the Insurer with respect to the Certificates, and designated as interest will be excludable from gross income for federal or State of California personal income tax purposes. See "Tax Matters" herein.

Remedies on Event of Default; No Acceleration; No Sale of Software Licenses

There is no remedy of acceleration of the total Base Rental Payments due over the term of the Sublicense Agreement, nor is the Trustee empowered to sell the software component of the Financed Property and use the proceeds of such sale to prepay the Certificates or pay debt service thereon. Upon nonappropriation or following an event of default under the Sublicense Agreement, the Corporation or the Trustee may exercise all available legal and equitable rights and remedies in retaking possession of the Financed Property. Any suit for money damages would be subject to limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Base Rental Payments were due and against funds needed to serve the public welfare and interest.

Performance of Contract

The success of and benefit to the County of the acquisition of the Project, and the County's continued willingness to pay costs associated with the Project, including but not limited to Base Rental Payments under the Sublicense Agreement, is dependent upon the continuing performance of Computer Sciences Corporation in

accordance with the terms of the Contract. A performance bond with a term ending December 13, 2001, satisfactory to the County, and in an amount not less than \$50 million is required under the Contract. The performance bond requirement is intended to protect the County from potential adverse impact on the services provided under the Contract in the event the contractor or subcontractors services are terminated or replaced. However, the County cannot guarantee there will be no adverse impact with respect to services provided to the County under the Contract in the event the contractor or subcontractors services are terminated or replaced. The performance bond is not pledged to secure the payment of principal and interest with respect to the Certificates.

Earthquakes

The County is not obligated under the Sublicense Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Financed Property and no assurance can be made that the County will procure and maintain, or cause to be procured and maintained, such insurance.

THE CORPORATION

The Corporation was organized on June 12, 1984, as a nonprofit public benefit corporation pursuant to the Nonprofit Public Corporation Law of the State of California. The Corporation's purpose is to render assistance to the County in its acquisition of equipment, real property and improvements on behalf of the County. Under its articles of incorporation, the Corporation has all powers conferred upon nonprofit public benefit corporations by the laws of the State of California, provided that it will not engage in any activity other than that which is necessary or convenient for, or incidental to the purposes for which it was formed. The Corporation has no taxing authority. The Corporation has no liability to the Owners of the Certificates and has pledged none of its moneys, funds or assets toward the Base Rental Payments or Additional Rental under the Sublicense Agreement, or toward the payment of any amount due in connection with the Certificates.

The Corporation is a separate legal entity from the County. It is governed by a five-member Board of Directors (the "Board of Directors") appointed by the Board of Supervisors of the County. The Corporation has no employees. All staff work is performed by employees of the County. The members of the Corporation's Board of Directors are Morris Slayen, Hardy G. Kuykendall, Tim Considine and Michel Anderson. There is currently one vacant position on the Corporation's Board of Directors.

The County's Chief Financial Officer, Treasurer-Tax Collector, the County Counsel, and other County employees are available to provide staff support to the Corporation.

The Corporation has not entered into any material financing arrangements with respect to the Certificates other than those referred to in this Official Statement. Further information concerning the Corporation may be obtained from the San Diego County Capital Asset Leasing Corporation office at 1600 Pacific Highway, Room 166, San Diego, California 92101.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, and Harrison, Taylor and Bazile, Oakland, California, Co-Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, the portion of each Base Rental Payment designated as and comprising interest is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. However, Co-Special Counsel express no opinion with respect to federal (or State of California personal) income tax consequences of any payments received with respect to the Certificates following termination of the County's possession under the Sublicense Agreement as a consequence of a determination by the Board of Supervisors of the County not to budget and appropriate funds sufficient to pay the Base Rental Payments and Additional Rental Payments coming due in a fiscal year. See "Risk Factors – Non-Appropriation Risk; Tax Effect." Co-Special Counsel is of the further opinion that the portion of each Base Rental Payment due under the Sublicense Agreement designated as and comprising interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Special Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. A complete copy of the opinion of Co-Special Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Certificates is less than the amount to be paid at maturity of such Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest with respect to the Certificates which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Certificates is the first price at which a substantial amount of such maturity of the Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Certificates accrues daily over the term to maturity of such Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, prepayment, or payment on maturity) of such Certificates. Owners of the Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of purchasers who do not purchase such Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

Certificates purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Obligations") will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like the Premium Obligations, the interest evidenced by which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Obligation, and under Treasury Regulations the amount of tax exempt interest received, will be reduced by the amount of amortizable premium properly allocable to such purchaser. Owners of Premium Obligations should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of the portion of payments such as the Base Rental Payments designated as and comprising interest. The County has covenanted to comply with certain restrictions designed to ensure that the portion of each Base Rental Payment designated as and comprising interest will not be included in federal gross income. Failure to comply with these covenants may result in the portion of each Base Rental Payment

designated as and comprising interest being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the Certificates. The opinion of Co-Special Counsel assumes compliance with these covenants. Co-Special Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of execution and delivery of the Certificates may adversely affect the value of the Certificates, or the tax status of the portion of each Base Rental Payment designated as and comprising interest. Further, no assurance can be given that pending or future legislation or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of the Certificates, or the tax status of the portion of each Base Rental Payment designated as and comprising interest. Prospective owners of the Certificates are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Certain requirements and procedures contained or referred to in the Trust Agreement, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, prepayment of the Base Rental Payments evidenced by the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Co-Special Counsel express no opinion as to any Certificate or the portion of each Base Rental Payment designated as and comprising interest if any such change occurs or action is taken or omitted upon the advice or approval of special counsel other than Orrick, Herrington & Sutcliffe LLP and Harrison, Taylor and Bazile.

Although Co-Special Counsel is of the opinion that the portion of each Base Rental Payment designated as and comprising interest is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of the Certificates, or the accrual or receipt of the portion of each Base Rental Payment designated as and comprising interest, may otherwise affect the tax liability of an owner of a Certificate. The nature and extent of these other tax consequences will depend upon the particular tax status of the Certificate owner or the Certificate owner's other items of income or deduction. Co-Special Counsel express no opinion regarding any such other tax consequences.

CERTAIN LEGAL MATTERS

The validity of the Certificates and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, and Harrison, Taylor and Bazile, Oakland, California, Co-Special Counsel. A complete copy of the proposed form of opinion of Co-Special Counsel is contained in Appendix E hereto. Co-Special Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins, Delafield & Wood, Los Angeles, California, and for the County and the Corporation by the County Counsel.

FINANCIAL ADVISOR

Sutro & Co. Incorporated served as the Financial Advisor to the County in connection with the execution and delivery of the Certificates. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness, of the information contained in this Official Statement.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement with U.S. Bank Trust National Association, acting as Dissemination Agent (the "Disclosure Agreement"), the County has agreed to provide, or cause to be provided by no later than 180 days after the end of the prior fiscal year (commencing with the report for the County's fiscal year ended June 30, 2000), to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data, including its audited financial statements and information of the type set forth in this Official Statement under the heading "County Financial Information." In addition, the County has agreed to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events" if determined by the County to be material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on the debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Certificates; (7) modifications to rights of holders of the Certificates; (8) optional, contingent or unscheduled Certificate calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates; (11) rating changes; and (12) a failure of the Board to appropriate Base Rental Payments and Additional Rental payments in accordance with the Sublicense Agreement by July 5 of a fiscal year (or next Business Day if July 5 does not fall on a Business Day) or, if earlier, upon the occurrence of any action by the Board to revoke or eliminate such an appropriation. These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5) (the "Rule"). The County has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

The County and the Dissemination Agent may amend the Disclosure Agreement, and waive any provision thereof (and the Dissemination Agent shall agree to any amendment so requested by the County, so long as such amendment does not adversely affect the rights or obligations of the Dissemination Agent), by written agreement of the parties, without the consent of the Owners of the Certificates, if all of the following conditions are satisfied: (a) if the amendment or waiver relates to the provisions governing the provision and content of the annual report or Listed Events, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates, or the type of business conducted; (b) the Disclosure Agreement as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) the amendment or waiver either (i) is approved by the holders of the Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Certificates. The County shall describe such amendment or waiver and the reason therefor in its next annual report filed with the Repositories.

In addition, the County's obligations under the Disclosure Agreement shall terminate upon a legal defeasance, prior prepayment or payment in full of all of the Certificates. The provisions of the Disclosure Agreement are intended to be for the benefit of the owners of the Certificates and beneficial owners of the Certificates and shall be enforceable by the Trustee on behalf of such owners and any owners of Certificates, provided that any enforcement action by any such person shall be permitted to a right to obtain specific enforcement of the County's obligations under the Disclosure Agreement and any failure by the County to comply with the provisions thereof shall not be an event of default under the Trust Agreement.

FINANCIAL STATEMENTS

The general purpose financial statements of the County, pertinent sections of which are included in Appendix B to this Official Statement, have been audited by KPMG LLP, independent certified public accountants, as stated in their report appearing in Appendix B. KPMG LLP has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by KPMG LLP with respect to any event subsequent to its report dated October 8, 1999.

LITIGATION

No litigation is pending, or to the best knowledge of the County, threatened against the County or the Corporation concerning the validity of the Certificates. The County is not aware of any litigation pending or threatened questioning the political existence of the County or the Corporation or contesting the County's ability to levy and collect *ad valorem* property taxes. There are a number of suits and claims pending against the County, all of which are in the normal course of the County's business. Also pending are a number of personal injury and wrongful death suits and claims, the aggregate amount of which will not, in the opinion of the County Counsel, materially affect the County's finances or impair its ability to make Base Rental Payments under the Sublicense Agreement in amounts sufficient to pay, when due, amounts designated as principal and interest with respect to the Certificates.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Certificates a rating of "Aaa," Standard & Poor's ("S&P") has assigned the Certificates a rating of "AAA," and Fitch IBCA ("Fitch") has assigned the Certificates a rating of "AAA." Each rating has been assigned with the understanding that, upon delivery of the Certificates, a policy insuring payment when due of the principal and interest with respect to the Certificates will be issued by Ambac Assurance. Such ratings reflect only the views of Moody's, S&P and Fitch, and do not constitute a recommendation to buy, sell or hold the Certificates. Explanation of the significance of such ratings may be obtained only from the respective organizations at: Moody's Investors Service, Inc. 99 Church Street, New York, New York 10007-2796, telephone number (212) 553-0317; Standard and Poor's Ratings Services, 55 Water Street, New York, New York 10041, telephone number (212) 438-2000; and Fitch IBCA, One State Street Plaza, New York, New York 10004, telephone number (212) 908-0500. There is no assurance that any such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of any such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Certificates are being purchased by A.G. Edwards & Sons, Inc., on behalf of the underwriters identified on the cover page hereof (the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Certificates at a price of \$51,193,235.60 (which amount represents the principal amount of the Certificates less an underwriters' discount of \$267,907.80 and less an original issue discount of \$158,856.60), plus accrued interest. The Purchase Contract relating to the Certificates provides that the Underwriters will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the cover page. The offering prices may be changed from time to time by the Underwriters.

MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or Owners of any of the Certificates.

The execution and delivery of this Official Statement has been duly authorized by the County.

COUNTY OF SAN DIEGO

By: /s/ William J. Kelley
Chief Financial Officer

Dated: May 11, 2000

APPENDIX A

ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF SAN DIEGO

General

The County of San Diego (the "County") is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the size of the State of Connecticut.

Topography of the County varies from broad coastal plains and fertile inland valleys to mountain ranges in the east which rise to an elevation of 6,500 feet. Eastern slopes of these mountains form the rim of the Anza-Borrego Desert and the Imperial Valley. The Cleveland National Forest occupies much of the interior portion of the County. The climate is equable in the coastal and valley regions where most of the population and resources are located. The average annual rainfall in the coastal areas is approximately 10 inches.

The County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence which contributes approximately \$10 billion annually to the retail and service businesses of the area.

The County is also growing as a major center for culture and education. Over 30 recognized art organizations, including the San Diego Opera, the Old Globe Theatre productions, the La Jolla Chamber Orchestra, as well as museums and art galleries, are located in the County. Higher education is provided through five two-year colleges and six four-year colleges and universities.

The San Diego Convention Center, containing 354,000 square feet of exhibit space and over 100,000 square feet of meeting/banquet rooms began operation in November 1989. The Convention Center can accommodate events for 30,000 to 40,000 people. During 1990, its first year of operation, 354 events were held, attracting 1.1 million guests. An estimated 280,000 of these guests were from out of town. Major conventions and trade shows are scheduled into the year 2009.

In addition to the City of San Diego, other principal cities in the County include Carlsbad, Chula Vista, Oceanside, El Cajon, Escondido, La Mesa and National City. Most County residents live within 20 miles of the coast. Farther inland are agricultural areas, principally planted in avocados and tomatoes, while the easternmost portion of the County has a dry, desert-like topography.

The County is the delivery system for federal, state and local programs. The County provides a wide range of services to its residents including: (i) regional services such as courts, probation, medical examiner, jails, elections and public health; (ii) health, welfare and human services such as mental health, senior citizen and child welfare services; (iii) basic local services such as planning, parks, libraries and Sheriff's patrol to the unincorporated area, and law enforcement and libraries by contract to incorporated cities; and (iv) infrastructure such as roads, waste disposal and flood control to the unincorporated areas of the County.

County Government

The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer. Elected officials include the Assessor/Recorder/Clerk, District Attorney, Sheriff and Treasurer-Tax Collector.

Growth Management

The County has fostered a regional growth management plan rather than development limitations. The current regional growth management effort was approved by the voters in November 1988 as Proposition C, the only one of five growth-related measures on the ballot to be approved. It provides for a voluntary planning process to help define, plan, and prepare for the impacts of growth on a regional basis. Representatives of the County and each of the 18 incorporated cities within the County agreed to a growth management board that came into being in 1990 through an amendment to the SANDAG joint powers agreement designating SANDAG as the board. The board has no power to limit growth in any jurisdiction.

Population

There are 18 incorporated cities in the County, and a number of unincorporated communities. For many years the population of the County has grown at a greater rate than that of either California or the nation. The County population for 1999 was estimated to be approximately 2.85 million, making it the second largest County by population in California and the sixteenth largest Metropolitan Statistical Area in the United States. The 1999 population increased 0.9% from 1998.

Population in the County is expected to grow to over 3.2 million people by the year 2005, to over 3.6 million people by 2015, and to over 3.8 million people by 2020 resulting in a 33% increase over this twenty year period which is nearly a 17% increase over the existing population.

The City of San Diego is the sixth largest city in the nation, and had a population of approximately 1,254,300 million people in as of January 1, 1999.

The following table shows changes in the population in the County, the State and the United States for the years 1990 to 1999.

POPULATION ESTIMATES
(in Thousands)

<u>Year</u>	<u>San Diego County</u>	<u>Percent Change</u>	<u>State of California</u>	<u>Percent Change</u>	<u>United States</u>	<u>Percent Change</u>
1990	2,498	2.56%	29,758	2.86%	249,468	1.04%
1991	2,540	2.70	30,296	2.24	252,648	1.27
1992	2,584	2.16	31,812	2.20	255,602	1.17
1993	2,614	2.46	31,303	1.36	258,245	1.03
1994	2,639	1.50	31,661	1.24	260,292	0.79
1995	2,659	0.55	31,910	0.63	262,643	0.90
1996	2,682	0.33	32,223	-0.35	265,179	0.97
1997	2,791	1.21	32,670	2.25	267,636	.93
1998	2,796	2.35	33,226	1.63	270,933	1.23
1999 ⁽¹⁾	2,853	--	33,773	--	--	--

Sources: California Department of Finance; U.S. Department of Commerce, U.S. Bureau of the Census.

⁽¹⁾ Estimated as of January 1, 2000.

Employment

The County's total labor force, the number of persons who work or are available for work, averaged approximately 1,342,600 in calendar year 1999. The number of employed workers in the labor force averaged approximately 1,300,000. The total work age population (15 to 64 years old) employed in the labor force is expected to increase. The following table sets forth information regarding the size of the labor force, employment and unemployment rates for the County, the State and the United States for the years 1995 through 1999.

LABOR FORCE – EMPLOYMENT AND UNEMPLOYMENT* ANNUAL AVERAGES 1995-1999 By Place of Residence (in Thousands)

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
County of San Diego					
Labor Force	1,233.9	1,241.3	1,285.0	1,319.4	1,342.6
Employment	1,155.3	1,175.9	1,230.7	1,273.0	1,300.0
Unemployment Rate	6.4%	5.3%	4.2%	3.5%	3.2%
State of California					
Labor Force	15,412.2	15,511.6	16,093.4	16,329.1	16,583.1
Employment	14,202.8	14,391.5	14,936.9	15,360.6	15,703.8
Unemployment Rate	7.8%	7.2%	6.3%	5.9%	5.3%
United States					
Labor Force	132,304.0	133,943.0	136,297.0 ⁽¹⁾	136,297.0 ⁽¹⁾	N/A
Employment	124,900.0	126,708.0	129,558.0 ⁽¹⁾	131,463.0 ⁽¹⁾	N/A
Unemployment Rate	5.6%	5.4%	4.9%	4.3%	N/A

Sources: State Data - California Employment Development Department; National Data – U.S. Department of Labor, Bureau of Labor Statistics.

* Data not seasonally adjusted.

⁽¹⁾ Data for 1997 not strictly comparable with data for prior years. Beginning in January 1998, data are not strictly comparable with data for 1997 and earlier years because of the introduction of new estimation procedures and revised population controls used in the household survey.

Employment by industry statistics for San Diego County are tabulated on a major statistical area basis (the "MSA"). Non-agricultural employment for totaled 1,100,300 jobs in 1998. The service industries of transportation, public utilities and communications constitute largest employment sector and accounted for approximately 82.8% of nonagricultural employment in 1998, with a total of 911,600 jobs. The service industries of hotel, lodging, health and engineering services was the second largest sector in 1998, comprising approximately 32.75% of non-agricultural employment with a total of 360,400 jobs.

During 1998, government jobs accounted for approximately 17.5% of total non-agricultural employment and manufacturing accounted for an additional 11.5%. The construction and transportation sectors of employment are greatly influenced by the general health of the economy due to the fact that they serve exclusively the local market. These two sectors are therefore directly influenced by the growth of population and housing.

The following table sets forth the annual average non-agricultural employment within the County, by employment sector, for the fiscal years 1994 through 1998.

SAN DIEGO COUNTY
LABOR FORCE AND INDUSTRY EMPLOYMENT
NON-AGRICULTURAL ANNUAL AVERAGES 1994-1998
By Place of Work
(in Thousands)

<u>Employment Sector</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Mining	0.4	0.3	0.4	0.4	0.3
Transportation Public Utilities and Communications	800.2	819.8	842.9	877.7	911.6
Construction	40.6	43.6	45.5	53.0	66.1
Manufacturing	114.1	114.9	117.5	123.1	127.3
Wholesale and Retail Trade	227.0	229.5	236.9	244.0	247.6
Finance, Insurance and Real Estate	59.1	55.8	57.4	60.9	64.2
Services	296.1	310.9	321.2	339.3	360.4
Government	181.5	186.1	190.1	192.0	194.8
Total, All Non- Farm Industries	955.3	978.6	1,006.2	1,054.2	1,100.3

Sources: California Employment Development Department.

The following table sets forth the employers in the County as of October 1998:

SAN DIEGO COUNTY

LARGEST EMPLOYERS

<u>Firm</u>	<u>Service/Product</u>
10,000 OR MORE EMPLOYEES:	
City of San Diego	Government
County of San Diego	Government
San Diego Unified School District	Education
Sharp Healthcare Corp.	Healthcare
University of California, San Diego	Higher Education
5,000-9,999 EMPLOYEES:	
National Steel & Shipbuilding Co.	Shipbuilders and Repairers
QUALCOMM, Inc.	Telecommunications
Scripps Health	Healthcare
U.S. Postal Service	Postal Service
3,000-4,999 EMPLOYEES:	
City of San Diego Police Department	Policing
FPA Medical Management	Medical Management Services
Grossmont Union H.S. District	Education
Kaiser Permanente Medical Group	Healthcare
Palomar Pomerado Health System	Healthcare
San Diego Community Colleges	Education
Science Applications International Corp.	Technology Services
SDG&E/Enova Corp.	Utilities
Sea World of California	Amusement Park
Solar Turbines, Inc.	Turbines, Industrial Gas
Sony Technology Center	Communication-Wireless
2,000-2,999 EMPLOYEES:	
Ace Parking	Parking Stations and Garages
ADECCO Employment Service	Temporary Help Services
Bank of America	Financial Services
B.F. Goodrich (fmr. Rohr Industries)	Automotive
Cajon Valley Union Elementary	Education
Chula Vista Elementary School District	Education
Cubic Corporation	
Escondido Union School District	Education
Foodmaker, Inc.	Restaurant Chain
Hewlett Packard Company	Electronic Instruments Manufacturer
Home Depot USA, Inc.	Hardware Stores
La Mesa-Spring Valley School District	Education
Manpower Temporary Services	Temporary Help Services
Nordstrom, Inc.	Department Stores
Oceanside Unified School District	Education
Pacific Bell	Telecommunications
Poway Unified School District	Education
Samsung	Electronics
San Diego State University	Higher Education
Scripps Research Institute	
Sweetwater Union H.S. District	Education
Target Stores	Department Stores
Vista Unified School District	Education

Source: San Diego Chamber of Commerce.

Regional Economy

In recent years the County has enjoyed economic stability, outpacing the State economy despite a general recession in the State. Much of this strength was evidenced by and due to outstanding employment gains, population growth, personal income increases, and high levels of commercial and industrial development.

Although the 1991 figure of the County's total "real" economy showed a decrease for the first time in nine years, the Gross Regional Product ("GRP") for 1990 was \$60.4 billion, up 6.3% from 1989. The GRP is an estimate of the value for all goods and services produced in the region. The GRP for 1999 rose to \$94.4 billion from \$88.5 billion in 1998. The following table presents the County's GRP from 1989 through 1999 and a forecast for 2000.

GROSS REGIONAL PRODUCT

<u>Year</u>	<u>Gross Regional Product (Billion \$)</u>	<u>Annual Percent Change</u>	
		<u>Current Dollars</u>	<u>Real Change*</u>
		<u>San Diego</u>	<u>San Diego</u>
1989	59.3	10.5	6.3
1990	63.1	6.3	1.5
1991	65.2	3.5	-0.3
1992	66.2	1.5	-1.1
1993	67.8	2.3	0.4
1994	70.5	4.0	2.0
1995	73.6	4.4	2.1
1996	77.4	5.2	3.0
1997	83.0	7.2	5.4
1998	88.5	6.6	5.6
1999 ⁽¹⁾	94.4	6.7	5.2
2000 ⁽²⁾	104.4	6.4	4.5

Sources: Bureau of Economic Analysis; Economic Research Bureau of the Greater San Diego Chamber of Commerce.

*Adjusted using the GDP/GSP Implicit Price Deflator.

⁽¹⁾ Not reported as final.

⁽²⁾ Estimated.

Economic activity and population growth in the local economy are closely related. Helping to sustain the County's economy is the performance of three basic industries of the region, which consist of manufacturing, the military, and tourism. The U.S. Department of Defense contributes about \$10 billion annually to the local economy, through wages paid to the uniformed military and civilian personnel, and for equipment and services purchased from local businesses. San Diego's military presence is anticipated to remain relatively stable and may even increase due to the consolidation of military operations and facilities from elsewhere in California, the West, and throughout the United States. The Department of Defense closed and vacated the Naval Training Center in 1997. However, three procurement agencies have recently relocated to San Diego, including the Naval Space and Warfare Systems Command, the Naval Aviation Engineering Servicing Unit, which hires private contractors to service jets, and the Naval Aviation Technical Service Facility, which stores approximately 10 million jet blueprints.

Building Activity

Building permit valuation for both residential and non-residential construction in the County in 1999 increased over 1998 levels by 22.6%. Even though measures limiting new housing remain in effect in areas throughout the County, residential valuations increased 29.04%. Non-residential valuations increased 10.35%. This increase in valuations is attributable to the construction of 2,173 new apartment units, \$40.1 million in hotel projects, and \$118.7 million in new office building and parking structure projects.

Annual total building permit valuation and the annual unit total of new residential permits from 1994 through 1999 are shown in the following table.

BUILDING PERMIT ACTIVITY (in Thousands)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Valuation						
Residential	\$1,218,857	\$ 1,187,952	\$1,358,355	\$ 2,032,771	\$2,314,056	\$ 2,985,960
Non-Residential	449,608	627,298	738,595	958,229	1,211,275	1,336,628
Total	<u>\$1,668,465</u>	<u>\$ 1,815,250</u>	<u>\$2,096,950</u>	<u>\$ 2,991,000</u>	<u>\$3,525,331</u>	<u>\$ 4,322,588</u>
New Housing Units						
Single Family	5,247	4,736	5,816	8,338	9,160	9,993
Multiple Family	<u>1,688</u>	<u>1,872</u>	<u>1,052</u>	<u>3,064</u>	<u>3,013</u>	<u>6,434</u>
Total	<u>6,935</u>	<u>6,608</u>	<u>6,868</u>	<u>11,402</u>	<u>12,173</u>	<u>16,427</u>

Source: Construction Industry Research Board.

Commercial Activity

Consumer spending for Calendar Year 1998 resulted in approximately \$29,616,000 in taxable sales in the County.

The following table sets forth information regarding taxable sales in the County for Calendar Years 1994-1998.

TAXABLE SALES Calendar Years 1994-1998 (000's Omitted)

<u>Type of Business</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Apparel Stores	\$ 890,813	\$ 850,087	\$ 864,819	\$ 926,657	\$ 1,029,691
General Merchandise	2,966,086	2,962,497	3,088,863	3,285,977	3,561,551
Specialty stores	2,180,212	2,335,210	2,473,042	2,739,312	2,991,422
Food Stores ⁽¹⁾	1,326,639	1,338,932	1,396,132	1,337,330	1,375,365
Home Furnishings/ Appliances	811,149	855,180	898,482	858,165	955,772
Eating and Drinking Establishments	2,165,277	2,271,296	2,385,143	2,523,340	2,714,916
Building Materials and Group	1,068,524	1,091,926	1,204,684	1,466,965	1,671,507
Automotive	4,110,168	4,278,825	4,623,162	4,728,592	5,041,798
All Other Retail Stores	199,905	197,330	207,058	535,973	594,504
Business and Personal Services	1,211,950	1,270,837	1,373,745	1,538,544	1,703,325
All Other Outlets	<u>5,444,420</u>	<u>5,981,923</u>	<u>6,623,435</u>	<u>7,467,671</u>	<u>7,976,153</u>
TOTAL ALL OUTLETS	<u>\$22,375,143</u>	<u>\$23,434,043</u>	<u>\$25,138,565</u>	<u>\$27,408,526</u>	<u>\$29,616,004</u>

Source: California State Board of Equalization, Taxable Sales in California.

⁽¹⁾ Sales by liquor stores for years 1994 through 1996 are included with Food Stores total.

Personal Income

The following table summarizes the total effective buying income and the median household effective buying income for the County, the State, and the United States between 1995 and 1998.

PERSONAL INCOME For Years 1995 through 1998

<u>Year and Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
<u>1995</u>		
San Diego County	45,541,671	33,679
California	477,640,503	34,533
United States	3,964,285,118	32,238
<u>1996</u>		
San Diego County	40,913,543	34,445
California	492,516,991	35,216
United States	4,161,512,384	33,482
<u>1997</u>		
San Diego County	43,212,824	35,725
California	524,439,600	36,483
United States	4,399,998,035	34,618
<u>1998*</u>		
San Diego County	46,056,143	36,296
California	551,999,317	37,091
United States	4,621,491,730	35,377

Source: Market Statistics, Demographics USA – County Edition.

* Sales and Marketing Management – Survey of Buying Power.

Transportation

Surface, sea and air transportation facilities serve County residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles area and points north. Interstate 15 runs inland, leading to Riverside-San Bernardino, Las Vegas, and Salt Lake City. Interstate 8 runs eastward through the southern United States.

San Diego's International Airport (Lindbergh Field) is located approximately one mile west of the downtown area at the edge of San Diego Bay. The facilities are owned and maintained by the San Diego Unified Port District and are leased to commercial airlines and other tenants. The airport is California's third most active commercial airport, served by 20 major airlines. In addition to San Diego International Airport there are two naval air stations and seven general aviation airports located in the County.

Public transit in the metropolitan area is provided by the Metropolitan Transit Development Board. The San Diego Trolley, developed by the Metropolitan Transit Development Board beginning in 1979, has been expanded. A total of 17.6 miles were added to the original 108 miles; construction was completed in 1990.

San Diego is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego, with stops at Del Mar and Oceanside in the North County.

San Diego's harbor is one of the world's largest natural harbors. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach, and Coronado.

Visitor and Convention Activity

An excellent climate, proximity to Mexico, extensive maritime facilities, and such attractions as the San Diego Zoo and Wild Animal Park, Sea World, Cabrillo National Monument, and Palomar Observatory allow San Diego to attract a high level of visitor and convention business each year. Contributing to the growth of visitor business has been the development of the 4,600-acre Mission Bay Park at San Diego and the construction of meeting and convention facilities at the San Diego Community Concourse.

San Diego's visitor industry is a major sector of the region's economy. Visitor revenues in San Diego County reached approximately \$4.88 billion in 1999, according to an estimate by the San Diego Convention and Visitors Bureau, an increase of \$1.8 billion from the prior year. The County hosted 55 conventions and trade shows in 1999, attended by approximately 320,050 delegates, who spent approximately \$288,460,396.

Education

Forty-three independent school districts provide educational programs for the elementary and secondary public school children in the County. Each school system is governed by a locally elected board of education and administered by a superintendent or other chief administrative officer appointed by the board. In the County there are three types of school districts: elementary, union high and unified. Elementary districts educate elementary students, union high districts educate for the most part secondary students, and unified districts educate both elementary and secondary students. There are currently 10 unified, 27 elementary and 6 union high school districts in the County.

Community colleges in California are locally operated and administered two-year institutions of higher education. They offer Associates in Arts and Associates in Science degrees and have extensive vocational curricula. There are five community college districts in the County with students at eleven campuses and numerous adult and community centers. Among the institutions of higher education offering bachelors and graduate programs in metropolitan San Diego are San Diego State University; the University of California at San Diego; National University; the University of San Diego; Point Loma College; California State University - San Marcos; United States International University; and the University of Phoenix.

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APPENDIX B

COUNTY OF SAN DIEGO AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 1999

Auditors' Opinion	
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750 B Street
San Diego, CA 92101

Independent Auditors' Report

We have audited the accompanying general purpose financial statements of the County of San Diego, California (the County) as of and for the year ended June 30, 1999, listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the management of the County. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

During 1999, the County of San Diego, California, adopted the provisions of Governmental Accounting Standards Board Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans."

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the County of San Diego, California at June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types, and the changes in net assets of its pension trust fund and investment trust fund, for the year then ended in conformity with generally accepted accounting principles.

The Year 2000 supplementary information in Schedule 4 is not a required part of the general purpose financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters have not been established. In addition, we do not provide assurance that the County is or will become Year 2000 compliant, that the County's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the County does business are or will become Year 2000 compliant.

KPMG LLP

October 8, 1999



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GENERAL PURPOSE STATEMENTS

IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD, THE FOLLOWING GENERAL PURPOSE STATEMENTS ARE PRESENTED:

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - (BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS - ALL GOVERNMENTAL FUND TYPES

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS/FUND BALANCE - ALL PROPRIETARY FUND TYPES

COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES

PENSION TRUST FUND - STATEMENT OF CHANGES IN PLAN NET ASSETS

INVESTMENT TRUST FUND - STATEMENT OF CHANGES IN NET ASSETS

NOTES TO COMBINED FINANCIAL STATEMENTS

Financial Report of San Diego County

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999
With Comparative Figures for June 30, 1998
(In Thousands)**

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
ASSETS AND OTHER DEBITS				
Equity in Pooled Cash and Investments	\$ 100,267	86,078	935	12,978
Cash with Fiscal Agent	180,081	439	27,292	12,455
Collections In Transit	1,454	122		
Imprest Cash	210	16		
Investments				
Taxes Receivable	461			
Accounts and Notes Receivable	165,558	23,468	379	1,050
Prepaid Expense				
Due from Other Funds	90,084	3,259	212	4,166
Advances to Other Funds	689	157	535	
Inventory of Materials and Supplies	7,694	1,705		
Deposits with Others		705		7
Restricted Assets:				
Investments		102,771		
Fixed Assets, Net				
Amount Available in Debt Service Funds				
Amount to be Provided for Retirement of General Long-Term Debt				
Total Assets and Other Debits	\$ 546,498	218,720	29,353	30,656
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts Payable	\$ 31,983	4,919		3,059
Accrued Payroll	24,109	1,281		
Accrued Interest				
Amount Due for Tax & Revenue Anticipation Notes	176,978			
Due to Other Funds	14,106	8,630	4	3,582
Obligations Under Securities Lending				
Due to Other Governments				
Advances from Other Funds		504	287	3,395
Amount Due for Commercial Paper Notes				
Deferred Revenue	18,276	10,003		9,041
Long-Term Debt Payable				
Total Liabilities	265,452	25,337	291	19,077
Equity and Other Credits:				
Investment in General Fixed Assets				
Contributed Capital				
Retained Earnings:				
Unreserved				
Fund Balances:				
Reserved for Encumbrances	56,092	24,938		49
Reserved for Loans	7,271	14,011		
Reserved for Deposits with Others		54		
Reserved for Inactive Landfill Maintenance		105,186		
Reserved for Inventory of Materials and Supplies	7,694	258		
Reserved for Debt Service			29,062	
Reserved for Pool Participants				
Reserved for Employees' Pension Benefits				
Unreserved:				
Designated for Subsequent Years' Expenditures	61,761	87		
Undesignated	148,228	48,849		11,530
Total Equity and Other Credits	281,046	193,383	29,062	11,579
Total Liabilities, Equity and Other Credits	\$ 546,498	218,720	29,353	30,656

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999
With Comparative Figures for June 30, 1998
(In Thousands)

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		STATEMENT 1A TOTALS (MEMORANDUM ONLY)	
ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	1999	1998
55,413	67,506	1,545,866			1,869,043	1,663,397
		410,399			630,666	494,328
11	42	11,925			13,554	25,081
2	200	74			502	496
		3,732,271			3,732,271	3,662,817
		199,152			199,613	203,885
1,575	155	51,479			243,664	232,418
						33
987	9,379	15,178			123,265	168,014
2,836	316				4,533	4,622
110	2,396				11,905	14,431
					712	759
					102,771	103,049
71,352	39,882	711	1,273,953		1,385,898	1,336,613
				29,062	29,062	29,125
				1,075,973	1,075,973	1,121,193
132,286	119,876	5,967,055	1,273,953	1,105,035	9,423,432	9,060,261
2,641	6,262	23,764			72,628	68,670
123					25,513	20,945
1					1	2
					176,978	227,531
377	1,659	94,907			123,265	168,014
		317,799			317,799	375,327
1,422		593,056			594,478	504,225
347					4,533	4,622
		55,900			55,900	66,671
2,066					39,386	53,969
740	76,606			1,105,035	1,182,381	1,240,059
7,717	84,527	1,085,426		1,105,035	2,592,862	2,730,035
			1,273,953		1,273,953	1,239,243
42,219	35,808				78,027	66,591
82,350	(459)				81,891	46,313
					81,079	70,913
					21,282	20,539
					54	54
					105,186	103,049
					7,952	10,188
					29,062	29,125
		1,071,074			1,071,074	1,013,500
		3,810,555			3,810,555	3,506,119
					61,848	11,630
124,569	35,349	4,881,629	1,273,953		208,607	212,962
					6,830,570	6,330,226
132,286	119,876	5,967,055	1,273,953	1,105,035	9,423,432	9,060,261

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 1999
With Comparative Figures for Year Ended June 30, 1998
(In Thousands)**

STATEMENT 1B

	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTALS (MEMORANDUM ONLY)	
					1999	1998
Revenues:						
Taxes	\$ 302,044	27,704	372	8,367	338,487	306,203
Licenses, Permits and Franchises	22,087	9,008			31,095	28,312
Fines, Forfeitures and Penalties	19,267	1,048		6,700	27,015	29,396
Revenue from Use of Money and Property	21,478	14,548	1,461	3,452	40,939	48,968
Aid from Governmental Agencies:						
State	900,891	42,584		1,205	944,680	933,920
Federal	354,268	60,789		1,102	416,159	512,022
Other	34,155	7,989	8,522	6,568	57,234	35,243
Charges for Current Services	191,123	19,918		249	211,290	196,435
Other Revenue	27,485	1,717		1,928	31,130	18,822
Total Revenues	1,872,798	185,305	10,355	29,571	2,098,029	2,109,321
Expenditures:						
Current:						
General	182,528	2,898			185,426	184,465
Public Protection	564,060	11,765			575,825	544,585
Public Ways and Facilities	1,964	78,163			80,127	66,509
Health and Sanitation	304,631	14,874			319,505	294,867
Public Assistance	645,312	57,820			703,132	816,620
Education	259	11,066			11,325	10,097
Recreational and Cultural	8,459	2,744			11,203	9,309
Capital Outlay	3,856			43,242	47,098	91,119
Debt Service	10,482		92,966		103,448	98,150
Total Expenditures	1,721,551	179,330	92,966	43,242	2,037,089	2,115,721
Excess of Revenues Over (Under) Expenditures	151,247	5,975	(82,611)	(13,671)	60,940	(6,400)
Other Financing Sources (Uses):						
Sale of Fixed Assets		6		523	529	889
Proceeds of Lease Purchase Financing Instruments	3,856				3,856	4,226
Operating Transfers In	2,877	44,899	82,895	55,630	186,301	247,162
Operating Transfers (Out)	(86,384)	(47,528)	(1,295)	(49,882)	(185,089)	(241,188)
Long-Term Debt Proceeds		1,283	71,727		73,010	77,876
Transfers to Escrow Agent			(70,779)		(70,779)	(71,175)
Total Other Financing Sources (Uses)	(79,651)	(1,340)	82,548	6,271	7,828	17,790
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	71,596	4,635	(63)	(7,400)	68,768	11,390
Fund Balances - Beginning of Year	221,085	189,271	29,125	18,979	458,460	292,179
Equity Conveyed to Other Entities		(631)			(631)	
Residual Equity Transfers In						161,315
Residual Equity Transfers (Out)	(9,290)				(9,290)	(5,653)
Increase (Decrease) in Reserve for Inventory of Materials and Supplies	(2,345)	108			(2,237)	(771)
Fund Balances - End of Year	\$ 281,046	193,383	29,062	11,579	515,070	458,460

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 1999
(In Thousands)**

STATEMENT 1C

	GENERAL FUND		
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 302,044	287,622	14,422
Licenses, Permits and Franchises	22,087	21,245	842
Fines, Forfeitures and Penalties	19,267	26,243	(6,976)
Revenue from Use of Money and Property	20,754	15,386	5,368
Aid from Other Governmental Agencies:			
State	900,891	1,003,155	(102,264)
Federal	354,268	329,536	24,732
Other	34,155	33,594	561
Charges for Current Services	191,123	174,198	16,925
Other Revenue	27,485	48,091	(20,606)
Total Revenues	1,872,074	1,939,070	(66,996)
Expenditures:			
Current:			
General	190,284	225,343	35,059
Public Protection	577,759	630,160	52,401
Public Ways and Facilities	2,827	19,575	16,748
Health and Sanitation	310,598	360,200	49,602
Public Assistance	652,679	717,836	65,157
Education	261	281	20
Recreational and Cultural	8,697	9,174	477
Capital Outlay			
Debt Service	10,482	11,830	1,348
Total Expenditures	1,753,587	1,974,399	220,812
Excess of Revenues Over (Under) Expenditures	118,487	(35,329)	153,816
Other Financing Sources (Uses):			
Sale of Fixed Assets			
Operating Transfers In	2,877	3,119	(242)
Operating Transfers (Out)	(106,584)	(107,140)	556
Encumbrances, Beginning of Year	47,916	47,916	
Total Other Financing Sources (Uses)	(55,791)	(56,105)	314
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	62,696	(91,434)	154,130
Fund Balances - Beginning of Year	174,420	174,420	
Equity Conveyed to Other Entities			
Residual Equity Transfers (Out)	(9,290)	(9,290)	
Increase (Decrease) in: Reserve for Inventory of Materials and Supplies	(2,345)		(2,345)
Fund Balances - End of Year	\$ 225,481	73,696	151,785

(Cont)

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 1999
(In Thousands)**

STATEMENT 1C (Cont)

	SPECIAL REVENUE FUNDS		
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 27,704	33,630	(5,926)
Licenses, Permits and Franchises	9,008	8,368	640
Fines, Forfeitures and Penalties	1,048	1,110	(62)
Revenue from Use of Money and Property	13,799	4,764	9,035
Aid from Other Governmental Agencies:			
State	42,584	39,241	3,343
Federal	60,789	92,388	(31,599)
Other	7,780	5,387	2,393
Charges for Current Services	19,918	33,220	(13,302)
Other Revenue	1,730	2,524	(794)
Total Revenues	184,360	220,632	(36,272)
Expenditures:			
Current:			
General	1,604	2,103	499
Public Protection	12,374	23,255	10,881
Public Ways and Facilities	90,172	131,918	41,746
Health and Sanitation	24,091	25,633	1,542
Public Assistance	57,820	83,154	25,334
Education	11,344	11,955	611
Recreational and Cultural	4,077	7,655	3,578
Capital Outlay			
Debt Service			
Total Expenditures	201,482	285,673	84,191
Excess of Revenues Over (Under) Expenditures	(17,122)	(65,041)	47,919
Other Financing Sources (Uses):			
Sale of Fixed Assets	6	36	(30)
Operating Transfers In	4,596	6,929	(2,333)
Operating Transfers (Out)	(8,807)	(13,274)	4,467
Encumbrances, Beginning of Year	22,863	22,863	
Total Other Financing Sources (Uses)	18,658	16,554	2,104
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	1,536	(48,487)	50,023
Fund Balances - Beginning of Year	167,589	167,589	
Equity Conveyed to Other Entities	(631)	(631)	
Residual Equity Transfers (Out)			
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies	108		108
Fund Balances - End of Year	\$ 168,602	118,471	50,131

(Cont)

Financial Report of San Diego County

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 1999
(In Thousands)

STATEMENT 1C (Cont)

	DEBT SERVICE FUNDS		
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 372	324	48
Licenses, Permits and Franchises			
Fines, Forfeitures and Penalties			
Revenue from Use of Money and Property	51	72	(21)
Aid from Other Governmental Agencies:			
State			
Federal			
Other	3,968	3,958	10
Charges for Current Services			
Other Revenue			
Total Revenues	4,391	4,354	37
Expenditures:			
Current:			
General			
Public Protection			
Public Ways and Facilities			
Health and Sanitation			
Public Assistance			
Education			
Recreational and Cultural			
Capital Outlay			
Debt Service	46,826	46,853	27
Total Expenditures	46,826	46,853	27
Excess of Revenues Over (Under) Expenditures	(42,435)	(42,499)	64
Other Financing Sources (Uses):			
Sale of Fixed Assets			
Operating Transfers In	42,740	42,420	320
Operating Transfers (Out)			
Encumbrances, Beginning of Year			
Total Other Financing Sources (Uses)	42,740	42,420	320
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	305	(79)	384
Fund Balances - Beginning of Year	749	749	
Equity Conveyed to Other Entities			
Residual Equity Transfers (Out)			
Increase (Decrease) in: Reserve for Inventory of Materials and Supplies			
Fund Balances - End of Year	\$ 1,054	670	384

(Cont)

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 1999
(In Thousands)**

STATEMENT 1C (Cont)

	CAPITAL PROJECTS FUNDS		
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 8,367	16,121	(7,754)
Licenses, Permits and Franchises			
Fines, Forfeitures and Penalties	6,700	7,656	(956)
Revenue from Use of Money and Property	1,750	2,983	(1,233)
Aid from Other Governmental Agencies:			
State	1,205	4,717	(3,512)
Federal	1,102	2,519	(1,417)
Other	6,568	7,840	(1,272)
Charges for Current Services	249	1,524	(1,275)
Other Revenue	962	1,673	(711)
Total Revenues	26,903	45,033	(18,130)
Expenditures:			
Current:			
General			
Public Protection			
Public Ways and Facilities			
Health and Sanitation			
Public Assistance			
Education			
Recreational and Cultural			
Capital Outlay	43,013	99,715	56,702
Debt Service			
Total Expenditures	43,013	99,715	56,702
Excess of Revenues Over (Under) Expenditures	(16,110)	(54,682)	38,572
Other Financing Sources (Uses):			
Sale of Fixed Assets	523	8,020	(7,497)
Operating Transfers In	55,129	76,716	(21,587)
Operating Transfers (Out)	(39,286)	(39,361)	75
Encumbrances, Beginning of Year	134	134	
Total Other Financing Sources (Uses)	16,500	45,509	(29,009)
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	390	(9,173)	9,563
Fund Balances - Beginning of Year	(601)	(601)	
Equity Conveyed to Other Entities			
Residual Equity Transfers (Out)			
Increase (Decrease) in: Reserve for Inventory of Materials and Supplies			
Fund Balances - End of Year	\$ (211)	(9,774)	9,563

(Cont)

Financial Report of San Diego County

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 1999
(In Thousands)

STATEMENT 1C (Cont)

	TOTALS		
	(MEMORANDUM ONLY)		
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 338,487	337,697	790
Licenses, Permits and Franchises	31,095	29,613	1,482
Fines, Forfeitures and Penalties	27,015	35,009	(7,994)
Revenue from Use of Money and Property	36,354	23,205	13,149
Aid from Other Governmental Agencies:			
State	944,680	1,047,113	(102,433)
Federal	416,159	424,443	(8,284)
Other	52,471	50,779	1,692
Charges for Current Services	211,290	208,942	2,348
Other Revenue	30,177	52,288	(22,111)
Total Revenues	2,087,728	2,209,089	(121,361)
Expenditures:			
Current:			
General	191,888	227,446	35,558
Public Protection	590,133	653,415	63,282
Public Ways and Facilities	92,999	151,493	58,494
Health and Sanitation	334,689	385,833	51,144
Public Assistance	710,499	800,990	90,491
Education	11,605	12,236	631
Recreational and Cultural	12,774	16,829	4,055
Capital Outlay	43,013	99,715	56,702
Debt Service	57,308	58,683	1,375
Total Expenditures	2,044,908	2,406,640	361,732
Excess of Revenues Over (Under) Expenditures	42,820	(197,551)	240,371
Other Financing Sources (Uses):			
Sale of Fixed Assets	529	8,056	(7,527)
Operating Transfers In	105,342	129,184	(23,842)
Operating Transfers (Out)	(154,677)	(159,775)	5,098
Encumbrances, Beginning of Year	70,913	70,913	
Total Other Financing Sources (Uses)	22,107	48,378	(26,271)
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	64,927	(149,173)	214,100
Fund Balances - Beginning of Year	342,157	342,157	
Equity Conveyed to Other Entities	(631)	(631)	
Residual Equity Transfers (Out)	(9,290)	(9,290)	
Increase (Decrease) in: Reserve for Inventory of Materials and Supplies	(2,237)		(2,237)
Fund Balances - End of Year	\$ 394,926	183,063	211,863

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

**COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
Year Ended June 30, 1999
With Comparative Figures for Year Ended June 30, 1998
(In Thousands)**

STATEMENT 1D

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	
	ENTERPRISE	INTERNAL SERVICE	1999	1998
Operating Revenues:				
Charges for Services	\$ 37,278	105,472	142,750	148,722
Operating Expenses:				
Salaries	3,560		3,560	6,496
Claims and Judgments		1,958	1,958	27,828
Cost of Materials		59,141	59,141	53,234
Repairs and Maintenance	918	3,700	4,618	5,436
Fuel		2,817	2,817	3,030
Equipment Rental	544		544	947
Sewage Processing	13,964		13,964	13,624
Contracted Services	12,688	170	12,858	21,914
Depreciation	2,720	4,520	7,240	6,572
Utilities	212		212	330
Other	3,461	1,752	5,213	6,280
Total Operating Expenses	38,067	74,058	112,125	145,691
Operating Income (Loss)	(789)	31,414	30,625	3,031
Nonoperating Revenues:				
Interest	3,346	2,132	5,478	6,005
Taxes	27		27	30
Grants	1,049		1,049	1,135
Gain on Disposal of Equipment				112,576
Other	107	4	111	90,671
Total Nonoperating Revenues	4,529	2,136	6,665	210,417
Nonoperating Expenses:				
Interest on Long-Term Debt	15	388	403	268
Loss on Disposal of Equipment	66	139	205	713
Equity Conveyed to Other Entities				3,456
Other	314		314	25,438
Total Nonoperating Expenses	395	527	922	29,875
Nonoperating Income (Loss)	4,134	1,609	5,743	180,542
Net Income (Loss) Before Operating Transfers	3,345	33,023	36,368	183,573
Operating Transfers In		260	260	242
Operating Transfers (Out)	(222)	(1,250)	(1,472)	(6,216)
Net Income (Loss)	3,123	32,033	35,156	177,599
Depreciation on Grant Funded Fixed Assets	422		422	598
Increase (Decrease) in Retained Earnings	3,545	32,033	35,578	178,197
Retained Earnings:				
Beginning Balance	78,805	(32,492)	46,313	26,679
Residual Equity Transfers (Out)				(158,563)
Retained Earnings Ending Balance	\$ 82,350	(459)	81,891	46,313

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
Year Ended June 30, 1999
With Comparative Figures for June 30, 1998
(In Thousands)**

	PROPRIETARY FUND TYPES		STATEMENT 1E TOTALS (MEMORANDUM ONLY)	
	ENTERPRISE	INTERNAL SERVICE	1999	1998
Cash Flows from Operating Activities:				
Operating Income (Loss)	\$ (789)	31,414	30,625	3,031
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation	2,720	4,520	7,240	6,571
Decrease (Increase) in Accounts Receivable and Notes Receivable, Net	(303)	(38)	(341)	1,991
Decrease (Increase) in Prepaid Expense	33		33	(33)
Decrease (Increase) in Due from Other Funds	557	(2,185)	(1,628)	23,111
Decrease (Increase) in Inventory of Materials and Supplies, Net		290	290	(211)
Increase (Decrease) in Accounts Payable	1,189	137	1,326	199
Increase (Decrease) in Accrued Payroll	14		14	(139)
Increase (Decrease) in Due to Other Funds	(4,116)	(3,298)	(7,414)	2,481
Increase (Decrease) in Due to Other Governments	(298)		(298)	(2,275)
Increase (Decrease) in Long-Term Debt Payable	(3)	(19,133)	(19,136)	(82,071)
Increase (Decrease) in Deferred Revenue	234		234	(1,845)
Other Revenue	134		134	90,700
Other Expense				(25,438)
Net Cash Provided (Used) by Operating Activities	(628)	11,707	11,079	16,072
Cash Flows from Non-Capital Financing Activities:				
Residual Equity Transfer In				3,059
Residual Equity Transfer (Out)				(158,563)
Loan Repayment from Other Agency				40
Advances Made on Long-Term Loans		159	159	(928)
Grants	1,519		1,519	1,608
Transfers from (to) Other Funds	(222)	(893)	(1,115)	(4,980)
Residual Equity Conveyed to Other Entities	(27)		(27)	(3,436)
Loans to Other Funds	(97)		(97)	(100)
Net Cash Provided (Used) by Non-Capital Financing Activities	1,173	(734)	439	(163,300)
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Fixed Assets	(4,615)	(8,533)	(13,148)	(7,860)
Proceeds from Sale of Equipment		548	548	163,418
Grants	1,320		1,320	
Principal Paid on Long-Term Debt	(25)	(2,069)	(2,094)	(1,575)
Interest Paid on Long-Term Debt	(16)	(279)	(295)	(268)
Residual Equity Transfers In		10,564	10,564	47
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,336)	231	(3,105)	153,762
Cash Flows from Investing Activities:				
Interest	3,228	2,197	5,425	6,306
Net Increase (Decrease) in Cash and Cash Equivalents	437	13,401	13,838	12,840
Cash and Cash Equivalents-Beginning of Year	54,989	54,347	109,336	96,496
Cash and Cash Equivalents-End of Year	\$ 55,426	67,748	123,174	109,336
Noncash Investing, Capital Financing Activities:				
Acquisition of Fixed Assets	\$ 557		557	683
Transfer Fixed Assets from (to) General Fixed Assets/Other Funds		750	750	(539)
Fixed Asset acquisition through Capital Lease		8,738	8,738	1603
Fixed Asset write-off	(380)		(380)	
Assumption of Capital Lease From General Long-Term Debt				(4,616)
Accrued Interest	642	434	1,076	
Residual Equity Transfer From General Fund		1,322	1,322	2594
Total Noncash Investing Capital Financing Activities	\$ 819	11,244	12,063	(275)

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

PENSION TRUST FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
Year Ended June 30, 1999
With Comparative Figures for Year Ended June 30, 1998
(In Thousands)

STATEMENT 1F

	<u>TOTALS</u>	
	1999	1998
ADDITIONS:		
Contributions:		
Employer	\$ 36,420	51,811
Plan Members	7,400	6,757
Total Contributions	43,820	58,568
Investment Income:		
Net Appreciation (Depreciation)		
in Fair Market Value of Investments	277,371	325,722
Interest Income	71,856	79,300
Other Income	46,821	61,840
Total Investment Income	396,048	466,862
Total Additions	439,868	525,430
DEDUCTIONS:		
Benefits	129,603	110,538
Refunds of Contributions	998	670
Administrative Expense	4,831	4,548
Total Deductions	135,432	115,756
Net Increase (Decrease)	304,436	409,674
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	3,506,119	3,096,445
End of Year	\$ 3,810,555	3,506,119

Financial Report of San Diego County

INVESTMENT TRUST FUND
STATEMENT OF CHANGES IN NET ASSETS
Year Ended June 30, 1999
With Comparative Figures for Year Ended June 30, 1998
(In Thousands)

STATEMENT 1G

	TOTALS	
	1999	1998
ADDITIONS:		
Contributions on Pooled Investments	\$ 9,544,662	8,880,803
Interest and Investment Income	85,515	69,123
Total Additions	9,630,177	8,949,926
DEDUCTIONS:		
Distribution from Pooled Investments	9,572,603	8,993,721
Net Increase (Decrease)	57,574	(43,795)
Net Assets Held in Trust for Pool Participants:		
Beginning of Year	1,013,500	1,057,295
End of Year	\$ 1,071,074	1,013,500

NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of San Diego (the "County") conform to generally accepted accounting principles (GAAP) applicable to governmental units. The following is a summary of the more significant of such policies.

A. THE FINANCIAL REPORTING ENTITY

The County of San Diego is a political subdivision of the State of California (the "State") charged with general governmental powers and governed by an elected five-member Board of Supervisors (the "Board"). As required by generally accepted accounting principles, these financial statements present the County of San Diego (the primary government) and its component units. The component units, discussed in Note 1B are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

B. INDIVIDUAL COMPONENT UNIT DISCLOSURES

Blended component units are listed below. The first seven component units are legally separate entities which are governed by the San Diego County Board of Supervisors and are reported as if they were part of the primary government because they benefit the County exclusively. The San Diego County Capital Asset Leasing Corporation (SANCAL) is a non-profit corporation governed by a five-member Board of Directors which is appointed by the County Board of Supervisors. SANCAL is reported as if it was part of the primary government because its sole purpose is to finance the acquisition of County buildings and equipment. The San Diego County Employees Retirement Association (SDCERA) is governed by a nine-person Board of Directors of which four members are appointed by the County Board of Supervisors. SDCERA is a legally separate entity reported as if it were part of the primary government, because it exclusively benefits the County by providing pensions for retired County employees. Separate financial statements for the individual component units described above may be obtained from the County Chief Financial Officer/Auditor and Controller.

The first five entities listed below are included as special revenue funds, the sanitation districts as enterprise funds, and the Redevelopment Agency as a capital project fund and debt service fund. SANCAL is included as a special revenue fund, capital project fund and debt service fund. SDCERA is included as a pension trust fund.

County Service Areas
Flood Control Districts
Lighting Maintenance Districts
Air Pollution Control District
County of San Diego Housing Authority
Sanitation Districts
San Diego County Redevelopment Agency
San Diego County Capital Asset Leasing Corporation
San Diego County Employees' Retirement Association

C. BASIS OF PRESENTATION

The financial transactions of the County are recorded in individual funds and account groups. The various funds and account groups are reported by type in the financial statements. Amounts in the "Totals-Memorandum Only" columns in the financial statements represent a summation of the combined financial statement line-items of the fund types and account groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different bases of accounting, both restricted and unrestricted amounts, and the caption "amount to be provided," which is not an asset in the usual sense. Consequently, amounts shown in the "Totals-Memorandum Only" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the County.

The County uses the following fund categories, fund types, and account groups:

Governmental Fund Types

General Fund - To account for all financial resources except those required to be accounted for in another fund. The general fund is the County's operating fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Included in these funds are the general funds of various component entities as described in Note 1B.

Debt Service Fund - To account for the accumulation of resources for the payment of principal and interest on general long-term debt.

Capital Project Funds - To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund types).

Proprietary Fund Types

Enterprise Funds - To account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds - To account for the financing of goods or services provided by one department to other departments of the County, or to other governments, on a cost-reimbursement basis.

Fiduciary Fund Types

Trust and Agency Funds - To account for assets held by the County as a trustee or as an agent for individuals, private organizations, other governments and/or other funds. These include the pension trust fund (San Diego County Employees' Retirement Association), investment trust fund and agency funds.

Account Groups

General Fixed Assets Account Group - To account for all fixed assets of the County, except those accounted for in the proprietary-fund types.

General Long-Term Debt Account Group - To account for all long-term obligations of the County, except those accounted for in the proprietary-fund types.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Agency funds are custodial in nature and do not involve measurement of results of operations.

All proprietary funds, the pension trust fund and the investment trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity for the proprietary funds (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Financial Accounting Standards Board Statements issued after November 30, 1989, are not applied in reporting proprietary fund operations.

Governmental and Agency fund types are accounted for on the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Revenues which are accrued include property taxes, sales tax, interest, and state and federal grants and subventions.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include: (1) principal and interest on long-term debt which is recognized when due; (2) prepaid expenses which are reported as current period expenditures, rather than allocated; and (3) accumulated unpaid vacation, sick leave, and other employee benefits which are reported in the period due and payable rather than in the period earned by employees.

Proprietary fund types, the pension trust fund and the investment trust fund are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred. There are no unbilled utility service receivables for the proprietary fund types.

E. PROPERTY TAXES

Real property taxes are levied on October 15 against owners of record at January 1. The taxes are due in two installments on November 1 and February 1 and become delinquent after December 10 and April 10, respectively. At January 1 all property is subject to lien for unpaid taxes. Secured (real) property taxes which are delinquent and unpaid as of June 30 are declared to be tax defaulted and are subject to redemption penalties, costs and interest when paid. If the delinquent taxes are not paid at the end of five (5) years, the property may be sold at public auction. Delinquent secured property taxes of all taxing jurisdictions and the subsequent collections of these delinquent taxes are held in an agency fund.

F. ASSETS, LIABILITIES, AND FUND EQUITY

Cash and Investments

Investments in County funds are stated at fair value. Securities which are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments in the Pension Trust Fund are reported at cost, which approximates fair value. The fair value of Pension Trust Fund real estate investments is based on independent appraisals. Investments of the Pension Trust Fund that do not have an established market are reported at estimated fair value.

For purposes of reporting cash flows, all amounts reported as "Equity in Pooled Cash and Investments," "Collections in Transit," and "Imprest Cash" are considered cash equivalents. Pooled cash and investment carrying amounts represent monies deposited in the County Treasurer's cash management pool and are similar in nature to demand deposits, (i.e., funds may be deposited and withdrawn at any time without prior notice or penalty). Allocations of assets and liabilities to individual funds related to reverse repurchase agreements are not considered cash equivalents for purposes of cash flow reporting.

Inventories

Inventories, which consist of expendable supplies, are stated at average cost. They are accounted for as expenditures at the time of purchase and reported in the balance sheet of the General Fund and the Special Revenue Funds of the County Library and Special Districts as an asset with an offsetting reserve. Inventory held by the Road Fund, a special revenue fund, and the proprietary fund types is carried at average cost and is expended when consumed.

Fixed Assets

General fixed assets are recorded as expenditures in the governmental fund types at time of purchase. These assets are capitalized at cost in the General Fixed Assets Account Group (GFAAG). The County has elected not to capitalize interest costs during the construction phase for assets capitalized in the GFAAG but does capitalize such interest, net of interest earned on invested proceeds over the same period, for assets capitalized in proprietary funds. In the case of acquisitions through gifts or contributions, such assets

are recorded at fair market value at the time received. No depreciation has been provided on general fixed assets. Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, and drainage systems have not been capitalized. Such assets normally are immovable and of value only to the County; therefore, the purposes of stewardship and cumulative accountability for capital expenditures are satisfied without recording these assets. Proprietary fund type fixed assets are reported in those funds at cost or estimated fair market value at time of donation.

Depreciation is charged to operations of proprietary funds over the fixed assets' estimated useful lives using the straight-line method for structures and improvements, and the hours/miles-of-service method for equipment. The estimated useful lives are as follows:

Structure and Improvements	5-50 years
Equipment	4-20 years

Long-Term Liabilities

Long-term liabilities expected to be financed with resources from governmental fund types are accounted for in the General Long-Term Debt Account Group. Long-term liabilities of all proprietary fund types are accounted for in the respective funds.

Amounts recorded as accumulated leave benefits include an amount representing salary-related payments such as the employer's share of social security and medicare taxes associated with payments made for such compensated absences. Accumulated leave benefits including vacation, sick leave, and compensatory time worked in the amount of approximately \$65.2 million for the governmental fund types as of June 30, 1999, is recorded in the General Long-Term Debt Account Group. These amounts would not be expected to be liquidated from expendable available financial resources but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

Reservation/Designation of Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Comparative Data/Totals-Memorandum Only

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the County's financial position and operations. Also, certain of the prior year amounts have been reclassified to conform with the current year financial statement presentations.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

General Budget Policies

An operating budget is adopted each fiscal year for the governmental funds. Annual budgets are not required to be adopted for SANCAL, a non-profit corporation. Accordingly, Special Revenue, Debt Service, and Capital Projects Funds for this entity are not included in the accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - (Budget and Actual) NonGAAP Budgetary Basis. Unencumbered appropriations for the governmental funds lapse at fiscal year-end. Encumbered appropriations are carried forward to the subsequent fiscal year. Budgets for the governmental funds are adopted on a basis of accounting which is different from generally accepted accounting principles.

The major areas of differences are as follows:

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) are reported as budgeted expenditures in the year the commitment to purchase is incurred. For GAAP purposes, encumbrances outstanding at fiscal year-end are reported as reservations of fund balances and do not constitute expenditures and liabilities, because the appropriations for these commitments will be carried forward and the commitments honored in the subsequent fiscal year.

Long-term capital lease obligations are not budgeted as an expenditure and source of funds in the year the asset is acquired. Under a GAAP basis, such obligations are included as an expenditure and source of funds in the year the asset is acquired.

Loans and deposits to other agencies, if any, and their subsequent repayments are budgeted as expenditures and revenues, respectively. Under a GAAP basis, these items are not recognized as expenditures and revenues.

On a budgetary basis, unrealized gains and losses on the fair value of investments are not recognized. For GAAP purposes, such gains or losses are recognized.

Expenditures may not legally exceed budgeted appropriations at the expenditure object level within each department. Departmental intrafund expenditure transfers do not have the budgetary status of legal appropriations. Therefore, variances between estimated transfers and actual transfers are not displayed in the general purpose financial statements, but are displayed as a general fund schedule within the Comprehensive Annual Financial Report. All amendments to the adopted budget require Board approval and, as such, reported budget figures are as originally adopted or subsequently amended by the Board. Supplemental appropriations during the year ended June 30, 1999, amounted to \$114.1 million in the general fund.

B. BUDGETARY TO GAAP BASIS RECONCILIATION

The following schedule is a reconciliation of the budgetary and GAAP fund balances (In Thousands):

BUDGETARY TO GAAP BASIS RECONCILIATION

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
Fund Balance-Budgetary Basis	\$225,481	168,602	1,054	(211)
Encumbrances Outstanding at Year-End	56,092	24,938	0	49
Fair Value Change in Investments	(527)	(597)	(5)	(66)
Fund Balances-Non Budgeted Funds	0	440	28,013	11,807
Fund Balances - GAAP Basis	\$281,046	193,383	29,062	11,579

C. FUND DEFICITS

The following funds have an accumulated deficit at June 30, 1999 (In Thousands):

Capital Projects Funds

San Diego County Redevelopment Agency (SDCRA) \$ 2,022

Enterprise Funds

Transit \$ 25

Internal Service Funds

Risk Financing \$25,794

The deficit within the SDCRA fund is due to the use of loan proceeds in advance of the receipt of benefit fees or incremental tax revenues. This deficit will be reduced in future years upon the receipt of the incremental tax revenues. The deficit within the Transit fund is due to inadequate cost recovery from user fees and the recognition of fair value changes in the value of investments. This deficit will be reduced in future years as securities mature and user fees are adjusted to cover costs. The deficit in the Risk Financing fund is due to the prior years' recognition of liabilities based on actuarial studies. This deficit is expected to be reduced over a 10 year period beginning July 1, 1997, through increased rates to County departments and reduced claim experience through increased risk management.

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. EQUITY IN POOLED CASH AND INVESTMENTS, CASH, INVESTMENTS, AND OBLIGATIONS UNDER REVERSE REPURCHASE AGREEMENTS

The County maintains a cash and investment pool that is available for use by all funds of the County as well as the funds of other agencies for which the County Treasury is the depository. The San Diego County Treasurer issues a separate annual financial report on the County Investment Pool. This report may be obtained by writing to the San Diego County Treasurer, Room 112, County Administration Center, 1600 Pacific Highway, San Diego, California, 92101 or by calling (619) 531-5211.

Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments." Interest earned on the pooled funds is accrued in a pooled interest apportionment fund and is allocated based on the average daily cash balances of the participating funds. State law requires that interest income related to certain funds be considered income of the general fund of the County. Such interest has been recorded as revenue in the general fund.

"Cash with Fiscal Agents," represents amounts on deposit with trustees for the SANCAL, San Diego County Housing Authority, SDCERA, County revolving funds, and for repayment of General Fund Tax and Revenue Anticipation Notes.

"Investments," represents the Inactive Waste Site Management Fund investments, the Pension Trust Fund investments and bonds held for other agencies.

Deposits: At year-end the carrying amount of the County's deposits was \$653,123,000 and the balance per various financial institutions was \$653,027,000. Of the balance in financial institutions, \$888,000 was covered by federal deposit insurance and \$652,139,000 was collateralized according to State statutes which require depositories having public funds on deposit to maintain a pool of securities with the agent of the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit. Of this amount \$392,273,000 was held by the County or its agent in the County's name and \$259,866,000 was held by the depository's trust department or agent in the County's name.

Investments: State statutes authorize the County to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase and reverse repurchase agreements, and negotiable certificates of deposit issued by national and state licensed or chartered banks or federal or state savings and loan associations. Pension Trust Fund investments are authorized by the County Employees' Retirement Law of 1937. Statutes authorize "Prudent Expert" guidelines as to the form and types of investments which may be purchased. The County's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. (In Thousands) Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by

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counterparty's trust department or agent in the County's name. There were no investments with a risk Category 2 at June 30, 1999. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name.

	CATEGORY		FAIR VALUE
	1	3	
Investments - Categorized			
Bankers Acceptances	\$	109,358	109,358
Repurchase Agreements	172,000	44,964	216,964
Commercial Paper	275,875		275,875
U.S. Government Securities	712,735	163,477	876,212
Negotiable certificates of deposit	622,859		622,859
Corporate notes	205,219		205,219
Corporate bonds	403,552		403,552
Common and preferred stock	2,296,221		2,296,221
Investments held by the County for other agencies:			
U.S. Government Securities	3,764		3,764
Corporate bonds	40		40
Common stock	1		1
Corporate Notes	7,738		7,738
Subtotal	4,700,004	317,799	5,017,803
Investments - Not Categorized			
Investments held by broker dealers under securities loans:			
U.S. Government securities			94,475
Corporate bonds			55,821
Common and preferred stock			159,841
Mutual Funds			154,838
Real Estate Equity			198,850
TOTAL INVESTMENTS			\$5,681,628

Fair values and estimates of fair values are provided monthly by an independent pricing agency and such values are not supported by any guarantees on the part of the pool sponsor or the pricing agency. The County and certain school districts are involuntary pool participants in the County Treasurer's investment pool and represent 92.3 percent of the total pooled cash and investments on hand at June 30, 1999.

Reverse Repurchase Agreements: State statutes permit the County to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The County had no reverse repurchase agreements outstanding at June 30, 1999. Due to significantly higher cash flows and market conditions at certain times during the year, the County's investments in repurchase agreements increased significantly and were substantially higher at those times.

Securities Lending Transactions: Under the provisions of State statutes, the County Treasurer lends U.S. government obligations and SDCERA lends U.S. government obligations, domestic and international bonds and equities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The County's custodial bank manages the securities lending programs for the County Treasurer and receives cash and securities as collateral pledged at 102 percent of the market value of securities lent. Fiscal agents for SDCERA manage the securities lending programs and receive cash securities pledged at 102 percent of fair value for domestic securities lent and 105 percent of the fair value of international securities lent. Additional collateral has to be provided the next business day if its value falls to 100 percent or less of the market value of the securities lent. The collateral securities can not be pledged or sold by the County Treasurer or SDCERA unless the borrower defaults. No more than 20 percent of the Treasurer's pooled investment portfolio may be lent at one time. There is no restriction on the amount of SDCERA securities that may be lent at one time. Securities on loan at year-end are presented as unclassified in the preceding schedule of custodial credit risk and represent transactions of the SDCERA pension trust fund. At year-end, the pension trust fund has no credit risk exposure to borrowers because the amounts SDCERA owes the borrowers exceeds the amounts the borrowers owe SDCERA. The term to maturity of securities loans is generally matched with the term to maturity of the cash collateral. Such matching existed at fiscal year end.

B. RESTRICTED ASSETS-INVESTMENTS

Certain investments have been restricted by operation of law to fund post closure landfill costs over a 30-year period. These investments are recorded in the Inactive Waste Site Special Revenue Fund.

C. GENERAL FIXED ASSETS

The following is a summary of investments in general fixed assets by sources and a summary of changes in general fixed assets as of and for the year ended June 30, 1999.

Sources of Investments in General Fixed Assets By Fund at June 30, 1999 (In Thousands)	
General Fund:	
General Fund Revenues	\$1,194,856
Federal and State Grants	2,997
Special Revenue Funds:	
Special Revenue Fund Revenues	75,595
Special Revenue State & Federal Grants	81
Capital Projects Funds:	
Lease Revenue Bonds	174
Certificates of Participation	250
Total	\$1,273,953

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Summary of Changes in General Fixed Assets by Class For the Year Ended June 30, 1999 (In Thousands)

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 191,969	19,657	17,337	194,289
Structures & Improvement	486,726	85,900	13,579	559,047
Equipment	108,112	9,823	15,631	102,304
Construction in Progress	452,436	40,326	74,449	418,313
Total	\$ 1,239,243	155,706	120,996	1,273,953

D. PROPRIETARY FUND TYPE FIXED ASSETS

Following is a summary of Proprietary Fund Type Fixed Assets by class as of June 30, 1999 (In Thousands):

	Enterprise	Internal Service
Land	\$ 7,480	
Structures & Improvements	88,870	
Equipment	9,988	56,003
Construction in Progress	5,359	
Total	111,697	56,003
Less Accumulated Depreciation	40,345	16,121
Net	\$ 71,352	39,882

E. LEASE COMMITMENTS

The County has commitments under long-term property operating lease agreements for facilities used for operations. These leases do not meet the criteria for capitalization under FASB Statement 13. The County is the lessee under the terms of several noncancelable operating leases for real property used to house certain County facilities. The combined rental cost for which the County is obligated under these leases is as follows (In Thousands):

Fiscal Year	Minimum Payments
1999/2000	\$5,125
2000/01	3,380
2001/02	2,358
2002/03	1,638
2003/04	1,250
Thereafter	9,003
Total	\$22,754

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Total rental expense for all real property operating leases for the year ended June 30, 1999, was approximately \$15.7 million.

In addition to real property leases, the County has also entered into long-term operating leases for personal property, a large portion of which represents data processing and duplicating equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 1999, was approximately \$11.8 million.

Certain buildings and equipment are being leased under capital leases as defined in FASB Statement 13. The present value of the minimum lease obligation has been capitalized in the General Fixed Asset Account Group and is reflected as a liability in the General Long-Term Debt Account Group. The County assumes responsibility for all maintenance, repair, and structural modifications under the terms of the lease agreements.

Capital Lease-Property Class	June 30, 1999 (In Thousands)
Structures and Improvements	\$47,678
Equipment	37,924
Total	\$85,602

Future minimum lease payments under capital leases consisted of the following at June 30, 1999 (In Thousands):

Fiscal Year	Minimum Lease Payments
1999/00	\$10,199
2000/01	10,015
2001/02	9,251
2002/03	9,065
2003/04	8,735
Thereafter	86,700
Total Minimum Lease Payments	133,965
Less: Amount Representing Interest	(48,363)
Net Lease Payments	\$85,602

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F. GENERAL LONG-TERM DEBT

General Long-Term Debt outstanding at June 30, 1999, consists of certificates of participation, capital lease obligations (See Note 3E), pension obligation bonds, revenue bonds, contracts/loans payable, accumulated unpaid employee leave benefits (See Note 1F) and landfill closure costs as follows (In Thousands):

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1989 Certificates of Participation issued November, 1989	6.20 - 7.10%	2009	\$24,433	\$ 15,648
1991 Certificates of Participation issued September, 1991	4.80 - 6.50%	2007	38,045	24,765
1993 Certificates of Participation issued March, 1993	3.00 - 5.75%	2013	7,640	6,335
1993 Certificates of Participation issued March, 1993	3.25 - 5.10%	2007	26,085	18,415
1993 Certificates of Participation issued May, 1993	2.50 - 5.625%	2012	203,400	147,675
1996 Certificates of Participation issued May, 1996	4.30 - 5.50%	2018	52,230	52,230
1996 Certificates of Participation issued December, 1996	4.00 - 6.00%	2019	37,690	37,690
1997 Certificates of Participation issued June, 1997	4.00 - 4.80%	2004	28,035	21,515
1997 Certificates of Participation issued July, 1997	4.00 - 5.00%	2025	80,675	79,105
1998 Certificates of Participation issued January, 1999	4.00 - 4.94%	2022	73,115	70,440
Total Certificates of Participation			571,348	473,818
Capitalized Leases:				
San Diego Regional Building Authority Lease beginning October, 1991	4.60 - 6.363%	2019	46,965	41,135
Third Party Financing Leases:				
Motorola Corporation Lease beginning December, 1995	5.65%	2011	39,772	34,069
Others				
various beginning dates from December, 1991 to the present	4.24 - 8.00%	1996 - 2007	17,324	10,398
Total Capitalized Leases			104,061	85,602

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Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
Other Long-Term Obligations:				
Calif. Integrated Waste Mgmt Board Loans beginning December, 1995	5.83-5.87%	2016	\$ 1,260	\$ 1,190
Taxable Pension Obligation Bonds Series A	4.7 - 6.60%	2007	430,430	373,220
Revenue Bonds Redevelopment Agency Series 1995	4.75- 6.75%	2020	5,100	4,960
Total			1,112,199	938,790
Accumulated Unpaid Employee Leave Benefits				65,245
Landfill Closure				101,000
Total General Long-Term Debt				\$1,105,035

The certificates of participation of the SANCAL non-profit corporation listed above are secured by annual base rental lease payments payable by the County for use of the facilities constructed or equipment purchased from debt proceeds. The capital leases between the County and SANCAL have been eliminated for financial reporting purposes and the related assets and debt (e.g. certificates of participation of SANCAL) are reported as San Diego County's assets and debt, respectively.

Changes in General Long-Term Debt for the year ended June 30, 1999, are summarized as follows (In Thousands):

	Beginning Balance	Additions	Retirements	Ending Balance
Lease Revenue Bonds/Certificates of Participation	\$424,338	73,115	23,635	473,818
Capital Lease Obligations	153,772	3,856	72,026	85,602
Contracts/Loans Payable	1,260		70	1,190
Pension Obligation Bonds	395,475		22,255	373,220
Redevelopment Agency Revenue Bonds	5,035		75	4,960
Accumulated Unpaid Employee Leave Benefits	69,438		4,193	65,245
Inactive Landfill Closure	101,000			101,000
Total	\$1,150,318	76,971	122,254	1,105,035

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The following is a schedule of debt service requirements to maturity, including interest, for General Long-Term Debt outstanding at June 30, 1999 (In Thousands). Accumulated unpaid employee leave benefits and Landfill Closure are excluded since they are not estimable due to timing of payments.

Fiscal Years Ending June 30	Certificates Of Participation	Capital Leases	Other Long-Term Obligations	Pension Obligation Bonds	Redevelop- ment Agency	Total
2000	\$52,555	10,200	140	48,756	406	112,057
2001	52,864	10,015	135	51,195	411	114,620
2002	53,107	9,251	131	53,753	420	116,662
2003	53,041	9,151	127	56,448	424	119,191
2004	51,283	8,648	124	59,270	422	119,747
2005-2009	207,487	40,224	555	222,271	2,137	472,674
2010-2014	112,233	25,487	453		2,167	140,340
2015-2019	65,394	17,491	152		2,202	85,239
2020-2024	39,093	3,498			887	43,478
2025-2026	10,119					10,119
Total	\$ 697,176	133,965	1,817	491,693	9,476	1,334,127

Prior Year Defeasance of Debt

In prior years, the County defeased certain lease revenue bonds/certificates of participation (COPs) by placing the proceeds of the original issue plus additional County contributions in an irrevocable trust to provide for all future debt service payments on the old obligations. Accordingly, the trust account assets and the liability for the defeased obligations are not included in the County's financial statements. At June 30, 1999, \$101 million of bonds/COPs outstanding are considered defeased.

Advance Refunding of Long-Term Debt

San Diego County Capital Asset Leasing Corporation (SANCAL)

On January 1, 1999, SANCAL issued \$73.1 million in Certificates of Participation (COPs) with an average interest rate of 4.6 percent to advance refund \$71.6 million in lease revenue bonds issued by the San Diego Regional Building Authority (the "Authority"). Lease revenue bonds issued by the Authority in July 1993 were secured by a long-term capital lease between the County and the Authority with an average interest rate of 5.3 percent. Net proceeds of \$71.7 million (after payment of \$1.4 million in bond discount, underwriting fees, insurance, and other issuance costs) plus \$5.5 million held in trustee debt service reserve funds were used to purchase U.S. government securities and to fund required COPs reserves. The securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 lease revenue bonds of the Authority. As a result, the 1993 lease revenue bonds of the Authority, secured by a long-term capital lease between the Authority and the County, are considered defeased. The liability for the long-term capital lease has been removed from the general long-term debt account group. SANCAL advance refunded the 1993 lease revenue bonds to reduce the total debt service payments over the next 24 years by \$2,138,137, obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$889,865 and eliminate certain restrictive covenants applicable to the lease revenue bonds.

Inactive Landfill Closure Costs

The County maintains 17 waste disposal sites that were closed prior to 1985. Consistent with State and Federal regulations pertaining to closed landfills, post closure costs for these landfills, to include facilities maintenance and groundwater monitoring over a 30 year period, are estimated at \$101 million in current year costs. This amount has been recorded in the general long-term debt account group. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The County has funded this liability from cash reserves realized in prior years.

G. PROPRIETARY FUND TYPES LONG-TERM DEBT

Proprietary fund types long-term debt consists of revenue bonds, loans payable, contracts payable, capital leases, long-term claims payable and unpaid accumulated employee leave benefits. The revenue bonds are general obligations of the issuing district and as such, the district is empowered and obligated to levy ad valorem taxes upon all taxable property within the district without limit as to rate or amount for the purpose of paying the principal and interest. The bonds are also payable from restricted sewer service revenues of the issuing districts. A schedule of Proprietary Fund Types Long-Term Debt is as follows (In Thousands):

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding 6/30/1999
Revenue Bonds:				
Alpine Sanitation 1970A	6.70 - 7.00%	2001	\$ 285	\$65
Loans:				
Julian Sanitation	5.3%	2003	61	16
Capital Leases:				
Mall/Print/Records ISF:				
Koch Financial	4.73%	2002	166	127
Pitney Bowes	4.62%	2003	304	250
Fleet ISF:				
Koch Financial	4.88 - 5.63%	2002	5,803	2,586
Pitney Bowes	4.22 - 4.87%	2004	8,683	8,422
Total			15,302	11,466
Contract Payable Spring Valley Sanitation District				344
Long-Term Claims Payable -				
Risk Financing ISF				65,221
Unpaid Accumulated Employee				
Leave Benefits				315
Total Proprietary Fund Types				
Long-Term Debt				\$77,346

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The following is a schedule of debt service requirements to maturity, including interest, for Proprietary Fund Types Revenue Bonds, Loans and Capital Leases outstanding at June 30, 1999. Accumulated unpaid employee leave benefits are excluded because they are not estimable due to timing of payments. Long term claims payable are also excluded since they are based on estimates which are uncertain as to the probable date of payment (In Thousands):

Year Ending June 30	Revenue Bonds	Loans	Capital Leases	Total
2000	\$24	4	3,701	3,729
2001	22	5	3,444	3,471
2002	26	4	2,588	2,618
2003		5	2,112	2,117
2004			497	497
Total	\$72	18	12,342	12,432

H. SPECIAL ASSESSMENT DEBT

The County Treasurer/Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated for repayment of any special assessment bonds and all special assessment debt is solely the obligation of various separate governmental agencies. The amount of special assessment debt outstanding for which the County is a fiduciary is \$20.8 million at June 30, 1999.

I. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Individual Fund interfund balances at June 30, 1999 were (In Thousands):

	Due From Other Funds	Due To Other Funds
General Funds:	\$90,084	14,106
Special Revenue Funds:		
Road Fund	1,789	1,204
Inactive Waste Site	40	102
Lighting District	31	37
Air Pollution District	178	105
County Library Fund	94	265
Asset Forfeiture Program Fund	35	3
Inmate Welfare Program	154	195
HCD	366	4,586
Cable TV Fund	15	49
Park Land Dedication Fund	69	149
County Service Area Funds	165	801
Flood Control District Funds	35	81
Housing Authority Fund	283	903
Other Special District Funds	5	150
Total Special Revenue Funds	3,259	3,630

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I. INTERFUND RECEIVABLE AND PAYABLE BALANCES (Continued)

	Due From Other Funds	Due To Other Funds
Debt Service Funds:		
Pension	\$197	
Nonprofit Corporation Funds	2	
Redevelopment Agency Funds	13	4
Total Debt Service Funds	212	4
Capital Projects Funds:		
Capital Outlay Funds	3,540	2,321
Edgemoor Development Fund	6	1
Nonprofit Corporation Funds	587	1,237
Redevelopment Agency Funds	33	23
Total Capital Projects Funds	4,166	3,582
Enterprise Funds:		
Airport Fund	167	118
Liquid Waste Fund	228	94
Transit Fund	63	6
Sanitation Districts	529	159
Total Enterprise Funds	987	377
Internal Service Funds:		
Road & Communication Funds	862	429
Purchasing Funds	4,846	4
Risk Financing	1,054	183
Fleet Services	2,430	673
Mail, Print, Records	167	148
Other Miscellaneous Funds	20	222
Total Internal Service Funds	9,379	1,659
Trust and Agency Funds:		
Pension Trust Fund	651	3
Property Tax Collection Funds	2,520	4,711
Investment Trust Fund	7,307	44,253
County Departmental Funds	2,276	20,725
Special Purpose Funds	2,424	25,215
Total Trust & Agency Funds	15,178	94,907
Total Due To - Due From	\$ 123,265	123,265

I. INTERFUND RECEIVABLE AND PAYABLE BALANCES (Continued)

	Advances To Other Funds	Advances From Other Funds
General Fund:	\$689	
Special Revenue Funds:		
County Service Area Funds		504
Flood Control District Funds	157	
Total Special Revenue Funds	157	504
Debt Service Funds:		
Nonprofit Corporation Funds	535	
Redevelopment Agency Funds		287
Total Debt Service Funds	535	287
Capital Projects Funds:		
Redevelopment Agency Funds		3,395
Total Capital Project Funds		3,395
Enterprise Funds:		
Airport Fund	2,701	
Sanitation Districts Fund	135	347
Total Enterprise Funds	2,836	347
Internal Service Funds:		
Special District Loans Funds	316	
Total Internal Services Funds	316	
Total Advances To -		
Advances From	\$4,533	4,533

J. RESIDUAL EQUITY TRANSFERS

Residual equity transfers consisted primarily of transfers from the General Fund to the Fleet Internal Service Fund (ISF) in the amount of \$9.29 million. Total residual equity transfers in do not equal total residual transfers out because the \$9.29 million is recorded as an addition to contributed capital in the Fleet ISF.

Financial Report of San Diego County

K. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The County maintains three Enterprise Funds which provide airport, liquid waste, and transit services. Segment information for the year ended June 30, 1999, for those funds and six sanitation districts for which the Board of Supervisors has oversight responsibility was as follows (In Thousands):

	Airport	Liquid Waste	Transit	Sanitation Districts	Totals
Operating Revenue	\$4,500	3,792	10,793	18,193	37,278
Depreciation	762	13	422	1,523	2,720
Operating Income (Loss)	(1,346)	(4)	(615)	1,176	(789)
Tax Revenue	-	-	-	27	27
Grant Revenue	1,006	43	-	-	1,049
Other Nonoperating Revenue	376	129	251	2,697	3,453
Nonoperating Expenses	-	-	-	395	395
Nonoperating Income or (Loss)	1,382	172	251	2,329	4,134
Net Income or (Loss)	(37)	44	(364)	3,480	3,123
Capital Contributions	-	-	1,320	496	1,816
Plant, Property and Equipment:					
Additions	2,629	-	1,320	1,212	5,161
Deletions	-	-	-	369	369
Net Working Capital	6,900	940	(25)	46,142	53,957
Total Assets	29,399	1,217	8,513	93,157	132,286
Total Equity	28,294	840	3,235	92,200	124,569
Long-Term Liabilities	112	203	-	425	740

L. CONTRIBUTED CAPITAL

During fiscal year 1998/99, contributed capital increased or decreased by the following amounts (In Thousands):

Enterprise Funds

SOURCE	Airport	Liquid Waste	Transit	Sanitation Districts
Capital Grants	\$		1,320	
Developer's Contributions				496
Government's Contributions				
Total Additions (Reductions)			1,320	496
Accumulated Depreciation on Grant Funded Fixed Assets			(5,590)	
Contributed Capital, July 1	15,922	695	7,530	21,846
Contributed Capital, June 30	\$15,922	695	3,260	22,342

Financial Report of San Diego County

Internal Service Funds

Source	Road And Communication Equipment Purchasing	Special District Loans	Risk Financing	Other Misc.	Fleet	Mail/ Print Records	Total
Governments' Contributions							
Total Additions (Reductions)	\$	6			10,035	1	10,042
Contributed Capital, July 1	9,541	1,171	896	-	4	13,580	574 25,766
Contributed Capital, June 30	\$9,541	1,171	902	-	4	23,615	575 35,808

4. OTHER NOTE DISCLOSURES

A. COMMITMENTS AND CONTINGENCIES

(1) Litigation

In addition to the accrued liability for litigation and Workers Compensation claims described in Note 4C, the County has a potential liability of \$67 million to \$123 million that could result if unfavorable final decisions were rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year. Estimates of potential liabilities described above include estimates of claims incurred but not reported at June 30, 1999.

Included in the above is the potential liability related to three petitions for writ of mandate filed against SDCERA (and the County of San Diego as real party in interest) seeking recalculation of retirement benefits. More specifically, the cases seek to expand and apply retroactively the California Supreme Court's decision in Ventura County Deputy Sheriffs' Assn. v. County of Ventura (1997) 16 Cal.4th 483 ("Ventura"). Petitioners in the lawsuits seek both prospective and retroactive relief. Some petitioners request relief retroactive to October 1, 1994; others seek relief retroactive to the date of retirement, regardless of retirement date. Petitioners seek a recalculation of "final compensation" (as defined in Government Code section 31462.1) and "compensation earnable" (as defined in Government Code section 31461), which will increase retirement benefits for retired and active members. Similar cases have been filed in several 1937 Act Counties, and have been coordinated before the Superior Court in the County of San Francisco. Petitioners in the San Diego (and most other cases) have been granted class action status. County Counsel expects that it will be at least one year before the Superior Court rules on the merits of the case.

The likelihood that petitioners will prevail on some of their requests to add items to the calculation of final compensation and compensation earnable is high. County management and SDCERA estimate that it is reasonably possible that the County's share of the unfunded liability will be in the range of \$50-100 million.

(2) Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately \$93.5 million in sick leave. These benefits are not payable to employees upon termination and are normally liquidated in future years as employees elect to use their benefits as prescribed by Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation has been recorded as current or long-term liabilities in the appropriate funds or General Long-Term Debt Account Group as described in Note 1F.

(3) Tax and Revenue Anticipation Notes

At June 30, 1999 \$175 million of Tax and Revenue Anticipation Notes issued during fiscal year 1998/99 were still outstanding. Monies for complete redemption of these notes were fully segregated with an independent trustee at June 30, 1999, and subsequently used to redeem the notes on September 30, 1999. On July 1, 1999, the County issued \$130 million of Tax and Revenue Anticipation notes to finance fiscal year 1999/00 General Fund cash flow requirements. The issues will be redeemed on September 30, 2000.

(4) Teeter Obligation Commercial Paper Notes

From November 1995 through June 1999, the County issued \$51.0 million in taxable and \$152.9 million in tax-exempt commercial paper notes (CP) to provide ongoing financing for tax apportionments to taxing jurisdictions within the County in the amount of delinquent secured property taxes due these districts. The notes are secured by delinquent secured property tax collections. No CP can be issued for a period longer than 270 days. At June 30, 1999, the outstanding balances of CP were \$8.8 and \$47.1 million for taxable and tax-exempt notes, respectively.

(5) Third Party Debt

Mortgage Revenue Bonds

Multi-family Housing Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate income. Between December 1985 and December 1996, the County issued \$43.5 million of Mortgage Revenue Bonds of which \$37.9 million were still outstanding as of June 30, 1999.

Certificates of Participation

Beginning in April 1998, \$112 million in Certificates of Participation have been issued to provide funding for construction of capital improvements and refunding of prior obligations for a hospital and medical center located within the County. Also, in December 1998, the County entered into a lease agreement with the San Diego Natural History Museum to issue \$15 million of COPs to finance certain museum improvements. As of June 30, 1999, \$127 million of such COPs are still outstanding.

Industrial Development Revenue Bonds

Industrial Development Revenue Bonds have been issued to provide financial assistance for the acquisition, construction, and installation of facilities for industrial, commercial, or business purposes to mutually benefit the citizens of the County. The County issued \$3.5 million of Industrial Development Revenue Bonds in October 1987 of which \$2.4 million were still outstanding as of June 30, 1999.

Mortgage Revenue Bonds, Certificates of Participation and Industrial Development Revenue Bonds as described above, together with interest thereon, are limited obligations of the County payable solely from bond proceeds, revenues and other amounts derived solely from home mortgage and health institutions, developer loans secured by first deeds of trust, irrevocable letters of credit, and irrevocable surety bonds. In the opinion of County officials, these bonds are not payable from any revenues or assets of the County, and neither the full faith and credit nor the taxing authority of the County, the State or any political subdivision thereof is obligated to the payment of the principal or interest on the bonds. Accordingly, no liability for these bonds have been recorded in the General Long-Term Debt Account Group.

(6) Federal Programs

The County participates in a number of federal financial assistance programs. Although these programs have been audited through June 30, 1998, in accordance with the provisions of the Single Audit Act of 1996, the resolution of previously identified questioned costs has not occurred. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

(7) SDCERA

SDCERA is party to managed future contracts, financial instruments with off-balance sheet risk, to generate earnings and to hedge the investments in fixed income securities and common stocks, thereby reducing its own exposure to fluctuations in market conditions. These contracts include, but are not limited to contracts for delayed delivery of securities, commodities or currencies in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Risks arise from the possible inability of counterparties to meet the terms of their contract. The risk of accounting loss from this off-balance sheet financial instrument includes credit risk and the possibility that future changes in market prices may make such a financial instrument less valuable (market risk).

Not reflected in the pension trust fund financial statements are commitments to acquire real estate totaling \$54.9 million.

(8) Deposits for Other Agencies

The Treasurer is a named paying agent for various bonds issued by other agencies, e.g., school districts, pursuant to the bond resolutions. The proceeds from these issues are deposited with financial institutions as guaranteed investment contracts in accordance with the provisions of the bond resolution and contractual relationships between the Treasurer and these financial institutions. The amounts deposited belong to the specific agency which issued the bonds and are not assets of the County reporting entity and are not held in the County's external investment pool. The County has no liability with respect to these issues.

B. RISK MANAGEMENT

The County operates a Risk Management Program, whereby it is self-insured for premises liability at medical facilities, medical malpractice, errors and omissions, false arrest, forgery, general liability, and workers' compensation. The County purchases insurance for property damage, certain casualty claims, and loss of money up to \$10,000 per selected site locations. The amount and coverage remains the same as in the prior year. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. During fiscal year 1994/95, the County established an Internal Service Fund (ISF) to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. An actuarial evaluation was used to determine the outstanding liabilities at June 30, 1999. The actuarial estimate was based partially on the experience of similar governmental entities and included the effects of specific incremental claim adjustment expenses, salvage and subrogation if such factors could be estimated. This estimate may be modified in future years to reflect the historical accumulation of the County's actual claims experience. At June 30, 1999, the amount of these liabilities, including an estimate for claims incurred but not reported, was estimated at \$65.2 million, including \$17.7 million in public liability and \$47.5 million in workers' compensation. The County began allocating the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll beginning fiscal year 1996/97. Changes in the balances of claim liabilities for fiscal year 1997/98 and 1998/99 were as follows (In Thousands):

	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Balance at Claim Payments	Fiscal Year-End
1997/98	\$76,410	\$21,809	\$(13,962)	\$84,257
1998/99	84,257	(3,902)	(15,134)	65,221

C. JOINT VENTURE

The County is a participant with 16 incorporated cities in a joint venture to operate an emergency services organization for the purpose of providing regional planning and mutual assistance in the event of an emergency or disaster in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council composed of one voting member from each represented jurisdiction. A contractual agreement requires that the cities provide one half of the total required funding each year. The County, by agreement, also provides one half of the required yearly funding. Any participant may terminate participation in the agreement by giving 120 days notice prior to the beginning of the next fiscal year. Total participant contributions for the 1998/99 fiscal year were \$396,332. The organization had a cumulative surplus of \$32,005 at June 30, 1999. Separate financial statements for the joint venture may be obtained from the County Chief Financial Officer/Auditor and Controller.

D. JOINTLY GOVERNED ORGANIZATIONS

The County Board of Supervisors jointly governs two service authorities, the Service Authority for Abandoned Vehicles and the Service Authority for Freeway Emergencies. These Authorities are governed by two seven-member boards, consisting of representatives from the city councils of the incorporated cities within the County and two members of the County Board of Supervisors. The purpose of the authorities is to provide for the removal of abandoned vehicles on streets and highways and to provide for freeway emergency call boxes on major freeways within the County, respectively. Funding for the authorities is derived from vehicle license fee surcharges, which are collected by the State and deposited into the County Treasury. The County provides minimal administrative staff support for these authorities.

The County Board of Supervisors and the San Diego City Council jointly govern the San Diego Workforce Partnership (the "Partnership"). The Partnership's Board of Directors consists of two members of the County Board of Supervisors, two members from the San Diego City Council and one member of a charitable organization. The purpose of the Partnership is to provide employment training to area residents. Funding for such training is provided by State and Federal grants.

The County also jointly governs the San Dieguito River Valley Authority, the Serra Cooperative Library System, Southern California Regional Training and Development Center, and the Van Horn Regional Treatment Facility. The governing boards of these entities consists of representatives from the County and/or other regional governments and other counties. The County does not appoint a voting majority to the above boards. Services provided by these entities include park land acquisition, coordination of library services, regional governmental training, and treatment of emotionally disturbed youth.

E. SAN DIEGO COUNTY EMPLOYEES' RETIREMENT SYSTEM

(1) Plan Description

The SDCERA administers a single-employer defined benefit pension plan which provides retirement, disability, and death benefits for plan members and beneficiaries pursuant to the County Retirement Law of 1937 enacted and amended by the State legislature. The plan is integrated with the Federal Social Security System. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the SDCERA Board of Retirement. SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. The financial report may be obtained by writing to the San Diego County Employees Retirement Association, 1495 Pacific Highway, Suite 400, San Diego, California 92101 or by calling (619) 515-6800.

(2) Basis of Accounting and Fair Value of Investments (See Notes 1D and 1F, respectively).

(3) Funding Policy

State statutes require member contributions to be actuarially determined to provide a specific statutory level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level, and certain negotiated contracts which provide for the County to pay a portion of the employees' contribution. Member contribution rates (weighted average) expressed as a percentage of salary are 5.33% for general members and 7.97% for safety members. The County is also required by State statutes to contribute at an actuarially determined rate; the 1998/99 rates, expressed as a percentage of covered payroll, are -.60% for general members and 2.28% for safety members.

(4) Annual Pension Cost

For Fiscal Year 1998/99, there was no annual pension cost for the SDCERA pension plan due to amortization of negative unfunded actuarial accrued liabilities. The County made no contributions to the SDCERA pension plan since none were required. The zero required contribution was determined as part of the June 30, 1997, actuarial evaluation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.2% investment rate of return; (b) projected salary increases of 4.5%. Both (a) and (b) included an inflation component of 4.0%. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a five year period. Any unfunded actuarially accrued liability would be funded as a level percentage of projected payroll over a closed five year period.

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(5) Schedule of Funding Progress (In Millions): Required Supplementary Information Unaudited

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
6/30/97	\$2,370.5	2,340.7	0	101.3%	\$561.7	0%
6/30/98	2,688.1	2,487.9	0	108.0%	581.4	0%
6/30/99	2,834.5	2,677.5	0	105.9%	599.8	0%

(6) Three-Year Trend Information (In Thousands):

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/97	\$23,269	100%	0
6/30/98	24,320	100%	0
6/30/99	0	100%	0

(7) Postretirement Health Care Benefits:

Depending on the availability of fund earnings, SDCERA provides postretirement health care benefits on a pay as you go basis for retirees who have had at least ten years employment with the County. SDCERA contributes health insurance premiums for five sponsored health maintenance organizations of \$210 per month for each retiree under the age of 65 with 20 or more years of service and \$110 per month for each retiree over the age of 65 with 10 or more years of service plus a cost of living adjustment based on years since retirement. Premium amounts in excess of these amounts are paid by the retiree. SDCERA also reimburses a fixed amount of \$43 per month for a Medicare supplement for each retiree over age 65. State statutes governing County retirement systems provide authority for SDCERA, with the consent of the SDCERA Board of Directors, to make such payments from interest earnings in excess of interest required to be credited to specific statutory reserves. SDCERA is not obligated to provide such benefits in future years and retired employees have no vested rights to receive such benefits. Accordingly, these postretirement health care benefits are not defined benefits as are pension plan benefits.

Approximately 8,200 retirees or surviving spouses are eligible to receive these benefits. SDCERA recognizes the cost of providing those benefits by expending annual insurance premiums, which approximated \$8.2 million for fiscal year 1998/99. A reserve established by the SDCERA Board of Directors for the payment of postretirement health care benefits was approximately \$132 million at June 30, 1999, a \$1 million decrease from the previous fiscal year.

(8) Equity and Bond Swaps and Futures Contracts:

SDCERA utilizes various financial instruments such as equity and bond interest rate swap agreements and stock and bond futures contracts in order to synthetically create exposure to the equity and bond markets. These financial instruments are intended to be equivalent to the asset they are designed to emulate and SDCERA management believes such investments offer significant advantages over the direct investment in securities including lower transaction fees and custody costs. The SDCERA governing board of directors has adopted a policy whereby specified amounts of cash and certain securities equal the exposures resulting from these agreements.

The use of swap agreements does expose the pension trust fund to the risk of dealing with financial counterparties and their ability to meet the terms of the contracts. Forward contracts for the purchase of certain commodities are reported at fair value in the financial statements. Obligations to purchase the commodities are not recognized until the commodities are delivered.

F. NEW GOVERNMENTAL ACCOUNTING STANDARDS

The Governmental Accounting Standards Board has issued Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans," which establishes accounting and reporting standards for deferred compensation plans established in accordance with section 457 of the Internal Revenue Code. The County has adopted the new standards for the current year and has determined that the County does not perform the duties of a fiduciary with respect to the deferred compensation plan assets held by third parties for employees of the County. Accordingly, such assets are no longer considered assets of the County and reported within an agency fund of the County. The adoption of this standard has resulted in a restatement of prior year financial statement amounts resulting in a reduction of agency fund assets and related liabilities of \$275.4 million for the prior year.

The Government Accounting Standards Board issued Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," and Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," in December 1998 and June 1999, respectively. Statement 33 establishes accounting and financial reporting standards to guide state and local governments decisions about when to report the results of nonexchange transactions involving cash and other financial and capital resources. Statement 34 establishes new financial reporting requirements for state and local governments. The County has not adopted the new standards for the current year but must adopt these standards for the fiscal year beginning July 1, 2001. The County has not determined the effect on the financial statements in the year of adoption.



APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following summary discussion of selected features of the Trust Agreement, the Lease, the Sublicense Assignment, the Sublicense Agreement and the Assignment Agreement are made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of Certificates are referred to the complete texts of said documents, copies of which are available upon request sent to the Trustee.

DEFINITIONS

Acquisition Fund

The term "Acquisition Fund" means the fund by that name established under the Trust Agreement.

Additional Rental

The term "Additional Rental" means the additional rental payments payable by the County under and pursuant to the Sublicense Agreement.

Administrative Expense Fund

The term "Administrative Expense Fund" means the fund by that name established under the Trust Agreement.

Assignment Agreement

The term "Assignment Agreement" means that certain Assignment Agreement, dated as of April 1, 2000, by and between the Corporation and the Trustee, as it may from time to time be amended.

Auditor and Controller

The term "Auditor and Controller" means the person holding the office of Auditor and Controller of the County, including any Acting or Interim Auditor and Controller.

Authorized Denominations

The term "Authorized Denominations" means \$5,000 or any integral multiple thereof.

Base Rental Payment Fund

The term "Base Rental Payment Fund" means the fund by that name established in accordance with the Sublicense Agreement.

Base Rental Payments

The term "Base Rental Payments" means the aggregate base rental payments with interest components and principal components payable by the County under and pursuant to the Sublicense

Agreement in the amounts and at the times set forth therein, subject to annual appropriation by the Board as set forth therein.

Beneficial Owner

The term "Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries).

Board

The term "Board" means the Board of Supervisors of the County of San Diego.

Business Day

The term "Business Day" means a day other than (i) Saturday or Sunday or (ii) a day on which banking institutions in Los Angeles, California, New York, New York, or the city or cities in which the principal corporate trust office of the Trustee are closed or (iii) a day on which the New York Stock Exchange is closed. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Trust Agreement, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Trust Agreement, and, unless otherwise specifically provided in the Trust Agreement, no interest shall accrue for the period from and after such nominal date.

Capital Finance Manager

The term "Capital Finance Manager" means the person holding the office of Capital Finance Manager of the County, including any Acting or Interim Capital Finance Manager.

Capitalized Interest Fund

The term "Capitalized Interest Fund" means the fund by that name established under the Trust Agreement.

Certificate of Completion

The term "Certificate of Completion" means a Certificate of the County stating the fact and date of completion of the installation of the Financed Property and stating that all of the costs of installation thereof and incidental expenses have been determined and paid (or that all of such costs and expenses have been paid less specified claims which are subject to dispute and for which a retention in the Acquisition Fund is to be maintained in the full amount of such claims until such dispute is resolved) and that the Financed Property is available for the County's use.

Certificate of the Corporation

The term "Certificate of the Corporation" means an instrument in writing signed by the Chair or the Vice Chair of the Corporation. If and to the extent required by the Trust Agreement, each Certificate of the Corporation shall include the statements provided for in the Trust Agreement.

Certificate of the County

The term "Certificate of the County" means an instrument in writing signed by the Chief Financial Officer, County Treasurer, the Capital Finance Manager or other officers who are specifically authorized by resolution of the Board to sign or execute such a document on its behalf. If and to the extent required by the provisions of the Trust Agreement, each Certificate of the County shall include the statements provided for in the Trust Agreement.

Certificates

The term "Certificates" means the County of San Diego Certificates of Participation (2000 Information Technology System Financing) executed and delivered by the Trustee pursuant to the Trust Agreement.

Certificates of Participation Purchase Contract

The term "Certificates of Participation Purchase Contract" means that certain Purchase Contract, dated May 11, 2000, by and between the Purchaser and the County relating to the Certificates.

Chief Financial Officer

The term "Chief Financial Officer" means the person holding the office of Chief Financial Officer of the County, including any Acting or Interim Chief Financial Officer.

Closing Date

The term "Closing Date" means the date on which the Certificates are initially executed and delivered.

Code

The term "Code" means the Internal Revenue Code of 1986, as amended, and the regulations of the United States Department of the Treasury issued thereunder, and in this regard reference to any particular section of the Code shall include reference to all successors to such section of the Code.

Completion Date

The term "Completion Date" means the date specified as such in the Certificate of Completion delivered to the Trustee by the County.

Continuing Disclosure Agreement

The term "Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the County and the Dissemination Agent dated the date of execution and delivery of the Certificates, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

Corporation

The term "Corporation" means the San Diego County Capital Asset Leasing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

Costs of Issuance

The term "Costs of Issuance" means all the costs of executing and delivering the Certificates, including, but not limited to, all printing and document preparation expenses in connection with the Trust Agreement, the Lease, the Sublicense Assignment, the CSC Sublicense, the Sublicense Agreement, the Assignment Agreement, the Certificates and the preliminary official statement and final official statement pertaining to the Certificates; rating agency fees; CUSIP Service Bureau charges; market study fees; legal fees and expenses of counsel with respect to the lease of the Financed Property and the sublicense of the Software; any computer and other expenses incurred in connection with the Certificates; the fees and expenses of the Trustee and its counsel; and other fees and expenses incurred in connection with the execution of the Certificates, to the extent such fees and expenses are approved by the County.

Cost of Issuance Fund

The term "Cost of Issuance Fund" means the fund by that name established under the Trust Agreement.

County

The term "County" means the County of San Diego, a political subdivision duly organized and existing under the Constitution and laws of the State of California.

County Treasurer

The term "County Treasurer" means the person holding the office of County Treasurer-Tax Collector of the County, including any Acting or Interim County Treasurer-Tax Collector.

CSC

The term "CSC" means Computer Sciences Corporation, a Nevada corporation.

CSC Sublicense

The term "CSC Sublicense" means that certain Sublicense and Assignment Agreement, dated as of April 1, 2000, by and between CSC and the County covering certain Software.

Defeasance Securities

The term "Defeasance Securities" means any of the following:

- (1) Treasury Certificates, Notes and Bonds (including State and Local Government Series -- "SLGS");
- (2) Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities;

- (3) The interest component of Resolution Funding Corp. strips which have been stripped by request to the Federal Reserve Bank of New York, in book entry form;
- (4) Pre-refunded municipal bonds rated "AAA" by Fitch, "Aaa" by Moody's or "AAA" by S&P;
- (5) Obligations issued or fully guaranteed by the following agencies which are backed by the full faith and credit of the United States:
 - a. U.S. Export-Import Bank
Direct obligations or fully guaranteed certificates of beneficial ownership
 - b. Farmers Home Administration
Certificates of beneficial ownership
 - c. Federal Financing Bank
 - d. General Services Administration
Participation certificates
 - e. U.S. Maritime Administration
Guaranteed Title XI financing
 - f. U.S. Department of Housing and Urban Development (HUD)
Project Notes
New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed
public housing notes and bonds

DTC

The term "DTC" means The Depository Trust Company, New York, New York, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for the Certificates including any such successor appointed pursuant to the Trust Agreement.

Earnings Fund

The term "Earnings Fund" means the fund by that name established under the Trust Agreement.

Equipment

The term "Equipment" means equipment described in the Trust Agreement, in the Lease and in the Sublicense Agreement (as the same may be changed from time to time by Removal or Substitution, as defined in the Sublicense Agreement).

Event of Default

The term "Event of Default" means any occurrence or event specified in and defined by the Trust Agreement.

Expiry Date

The term "Expiry Date" means June 1, 2010, unless terminated on an earlier date pursuant to the Sublicense Agreement.

Financed Property

The term "Financed Property" means the Equipment, the Software and the Software Licenses as described in the Trust Agreement and as the same may be changed from time to time by Removal or Substitution as provided in the Sublicense Agreement.

Financial Newspaper

The term "Financial Newspaper" means *The Wall Street Journal* or *The Bond Buyer* or, if neither such newspaper is being regularly published, any other newspaper or journal publishing financial news and selected by the County that is printed in the English language, is customarily published on each Business Day and is circulated in Los Angeles, California and New York, New York.

Fitch

The term "Fitch" means Fitch IBCA, Inc., or any successor credit rating agency selected by the County.

Insurance Consultant

The term "Insurance Consultant" means an individual or firm retained by the County as an independent insurance consultant, experienced in the field of risk management.

Insurance Proceeds and Condemnation Awards Fund

The term "Insurance Proceeds and Condemnation Awards Fund" means the fund by that name established under the Trust Agreement.

Insurer

The term "Insurer" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

Interest Fund

The term "Interest Fund" means the fund by that name established under the Trust Agreement.

Interest Payment Date

The term "Interest Payment Date" means December 1, 2000 and each June 1, and December 1, thereafter.

Interest Period

The term "Interest Period" means each period from and including one Interest Payment Date to but excluding the next following Interest Payment Date, except that the initial Interest Period will be the period from and including May 1, 2000, to but excluding December 1, 2000.

Lease

The term "Lease" means that certain Lease, dated as of April 1, 2000, with respect to the Equipment, by and between the County, as lessor, and the Corporation, as lessee, as originally executed and as it may be amended from time to time.

Lease Year

The term "Lease Year" means the period from each July 1 to and including the following June 30, during the term of the Sublicense Agreement; except that the initial Lease Year means the period from the Closing Date to and including June 30, 2000.

License Rights

The term "License Rights" means the License Rights assigned to or licensed to the County with respect to the Software.

Moody's

The term "Moody's" means Moody's Investors Service, Inc., or any successor credit rating agency selected by the County.

Municipal Bond Insurance Policy

The term "Municipal Bond Insurance Policy" means the Municipal Bond Insurance, Policy issued by the Insurer insuring the payment when due, in whole or in part, of the principal and interest with respect to the Certificates as provided therein.

Net Proceeds

The term "Net Proceeds" means, collectively, the net proceeds of any insurance or condemnation award resulting from any damage or destruction of any portion of the Equipment, or other proceeds to be disbursed in accordance with the Trust Agreement.

Operating Agreement

The term "Operating Agreement" means that certain Information Technology and Telecommunications Services Agreement, by and between the County and CSC dated November 10, 1999, providing the terms and conditions under which the County shall acquire the Equipment and the Software, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

Opinion of Counsel

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the County.

Outstanding

The term "Outstanding" when used as of any particular time with reference to Certificates, means all Certificates, including, but not limited to, the Certificates as described in paragraph (a) under the heading "Municipal Bond Insurance Policy – Payments from Municipal Bond Insurance Policy," except:

- (1) Certificates previously canceled by the Trustee or delivered to the Trustee for cancellation;
- (2) Certificates described under the heading "Amendment of or Supplement to Trust Agreement - Disqualified Certificates" are not deemed outstanding;
- (3) Certificates paid or deemed to have been paid within the meaning given under the heading "Defeasance of Certificates – Discharge of Certificates and Trust Agreement"; and
- (4) Certificates in lieu of or in substitution for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

Owner

The term "Owner" means any person who shall be the registered owner of any Outstanding Certificate as indicated in the registration books of the Trustee.

Permitted Encumbrances

The term "Permitted Encumbrances" means, as of any particular time: (i) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the County may, pursuant to the Trust Agreement, permit to remain unpaid; (ii) the Lease, the Sublicense Agreement and the Assignment Agreement, as it may be amended or supplemented from time to time; (iii) the Operating Agreement; (iv) the CSC Sublicense Assignment; and (v) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law.

Permitted Investments

The term "Permitted Investments" means any of the following to the extent then permitted by applicable laws and any investment policies of the County:

- (1) Any bonds or other obligations which, as to principal and interest, constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any federal agencies, to the extent such obligations are unconditionally guaranteed by the United States of America;
- (2) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks or the Federal Home Loan Bank Board, or obligations, participations or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association, the Government National Mortgage Association or the Federal Home Loan Mortgage Corporation; or guaranteed Small Business Administration notes or portions thereof;

(3) Obligations of the State of California or of any state or any local agency of either thereof which are rated in one of the two highest long-term rating categories of Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such obligations;

(4) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, with a maximum term of one year, which are eligible for purchase by the Federal Reserve System, or deposit accounts of any bank which has unsecured, uninsured and unguaranteed obligation ratings of "F-1" or "A" by Fitch, "P-1" or "A" by Moody's and "A-1" or "A" by S&P, or better, so long as each then maintains a rating on the Certificates and a rating on such obligations;

(5) Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating at the time of investment therein as provided by Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such obligations;

(6) Negotiable certificates of deposit issued by a nationally or state-chartered bank, or a state or federal savings and loan association or by a state-licensed branch of a foreign bank qualified as a depository of public funds in the State of California, including the Trustee or any affiliate thereof, which has unsecured, uninsured and unguaranteed obligation ratings of "F-1" or "A" by Fitch, "P-1" or "A" by Moody's and "A-1" or "A" by S&P, or better, so long as each then maintains a rating on the Certificates and a rating on such obligations;

(7) Any repurchase agreement or reverse repurchase agreement with members of the Association of Primary Dealers of United States Government Securities or financial institutions, which are rated at the time of investment therein not lower than "A" by Fitch, "A" by Moody's and "A" by S&P and which are acceptable to the Insurer, to the extent such agreements are fully collateralized at levels acceptable to the Insurer by obligations described in clauses (1) and (2) of this definition, if the Trustee holds or appoints some intermediary bank or savings association to hold the collateral securing such agreement and the Trustee or its appointed agent has a first priority security interest in such collateral, and the repurchase agreement or reverse repurchase agreement is free and clear of any third party lien or claim;

(8) Bonds or obligations issued by the County which are rated in one of the two highest long-term rating categories of Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such bonds or obligations, including bonds or obligations payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the County or by a department, board, agency or authority thereof;

(9) Medium-term notes, corporate notes, deposit notes or bank notes of a maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment in this paragraph (9) shall be rated in a rating category of "A" or its equivalent or better by Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such notes;

(10) Any mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer

receivable passthrough certificate, or consumer receivable-backed bond of a maximum of five years maturity. Securities eligible for investment under this clause (10) shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by Fitch, Moody's and S&P and rated in a rating category of "AA" or its equivalent or better by Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such securities;

(11) Shares in money market funds investing in the securities and obligations as described in paragraphs (1) to (10), inclusive, of this definition and which comply with the investment restrictions of Articles 1 and 2 of Chapter 4 of Title 5 of the California Government Code (commencing with Section 53630). To be eligible for investment as described in this paragraph (11) these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such obligations, or (2) have an investment adviser registered with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations as described in paragraphs (1) to (10), inclusive, of this definition and with assets under management in excess of \$500,000,000. The purchase price of shares of beneficial interest purchased as described in paragraph (11) shall not include any commission that these companies may charge;

(12) Investment agreements (including guaranteed investment contracts), debt service fund float agreements and debt service reserve fund put agreements reviewed by and acceptable to Fitch, Moody's, S&P and the Insurer, and each of them so long as it then maintains a rating on the Certificates and a rating on such agreement, and the Insurer;

(13) The San Diego County Pooled Investment Fund; and

(14) Any other investments which the County deems to be prudent investments and in which the County invests or directs the Trustee to invest, provided that such investments are approved by Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such agreement, and the Insurer.

Any references to long-term rating categories in this definition shall not take into account any plus or minus sign or numerical modifiers.

Principal Corporate Trust Office

The term "Principal Corporate Trust Office" means the corporate trust office of the Trustee at the address set forth in the Trust Agreement, except for purposes of payment, registration, transfer, exchange and surrender of Certificates, means the corporate trust office of U.S. Bank Trust National Association in St. Paul, Minnesota or such other office specified by the Trustee.

Principal Fund

The term "Principal Fund" means the fund by that name established under the Trust Agreement.

Principal Payment

The term "Principal Payment" means the principal amount of Certificates required to be paid on each Principal Payment Date.

Principal Payment Date

The term "Principal Payment Date" means June 1 of each year, commencing June 1, 2001.

Purchaser

The term "Purchaser" means A.G. Edwards & Sons, Inc., on behalf of the underwriters named in the Certificates of Participation Purchase Contract, as underwriters and purchasers of the Certificates pursuant to the Certificates of Participation Purchase Contract.

Rebate Requirement

The term "Rebate Requirement" means the Rebate Requirement as defined in the Tax Certificate.

Record Date

The term "Record Date" means the close of business on the fifteenth day of the month preceding any Interest Payment Date, whether or not such day is a Business Day.

Removal

The term "Removal" means the release of all or a portion of the Financed Property from the terms of the Sublicense Agreement as provided therein.

Rental Payments

The term "Rental Payments" means, collectively, the Base Rental Payments and the Additional Rental.

Representation Letter

The term "Representation Letter" means the Letter of Representations from the County and the Trustee to DTC, or any successor securities depository for the Certificates, in which the County and the Trustee make certain representations with respect to the Certificates, the payment with respect thereto and delivery of notices with respect thereto.

S&P

The term "S&P" means Standard & Poor's Ratings Services, or any successor credit rating agency selected by the County.

Software

The term "Software" means the software described in the Sublicense Agreement (as the same may be changed from time to time by Removal or Substitution, as defined in the Sublicense Agreement).

Software Licenses

The term "Software Licenses" mean the Software Licenses described in the Sublicense Agreement (as the same may be changed from time to time by Removal or Substitution, as defined in the Sublicense Agreement).

State

The term "State" means the State of California.

Sublicense Agreement

The term "Sublicense Agreement" means the Equipment Lease and Sublicense Agreement, dated as of April 1, 2000, with respect to the Financed Property, by and between the County, as sublessee and sublicensee, and the Corporation, as sublessor and sublicensor, as originally executed and as it may be amended from time to time.

Sublicense Assignment

The term "Sublicense Assignment" means the Assignment of Sublicense dated April 1, 2000, by which the County has assigned the certain Software Licenses and certain License Rights with respect to the Software to the Corporation.

Substitution

The term "Substitution" means the release of all or a portion of the Financed Property from terms of the Sublicense Agreement as provided therein, and the lease and/or sublicense of substituted property and improvements in accordance with the Trust Agreement as provided in the Sublicense Agreement.

Supplemental Trust Agreement

The term "Supplemental Trust Agreement" means an agreement amending or supplementing the terms of the Trust Agreement in accordance therewith.

Tax Certificate

The term "Tax Certificate" means that tax certificate executed by the County at the time of execution and delivery of the Certificates relating to the requirements of Section 148 of the Code, as such certificate may be amended or supplemented.

Trust Agreement

The term "Trust Agreement" means that certain Trust Agreement by and among the Trustee, the County and the Corporation, dated as of April 1, 2000, providing for the terms and conditions of the Certificates, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

Trustee

The term "Trustee" means U.S. Bank Trust National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America and having a principal corporate trust office located at Los Angeles, California, as trustee, acting in its capacity as such under the Trust Agreement, or any successor as therein provided.

Written Request of the County

The term "Written Request of the County" means an instrument in writing signed by the Chief Financial Officer, County Treasurer, the Capital Finance Manager or other officers who are specifically authorized by resolution of the Board to sign or execute such a document on its behalf, as reflected in a Certificate of the County to such effect delivered to the Trustee.

TRUST AGREEMENT

General

The Trust Agreement sets forth the terms of the Certificates, the nature and extent of the security for the Certificates, various rights of the Owners of the Certificates, rights, duties and immunities of the Trustee and the rights and obligations of the County. Certain provisions of the Trust Agreement are summarized below. Other provisions are summarized in this Official Statement under the captions "The Certificates" and "Security and Sources of Payment for the Certificates." This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Trust Agreement.

Security for Certificates

Equal Security. In consideration of the acceptance of the Certificates by the Owners, the Trust Agreement shall be deemed to be and shall constitute a contract between the Trustee and the Owners to secure the full and final payment of the interest and principal, and premium, if any, represented by the Certificates which may be executed and delivered in accordance with the Trust Agreement, subject to each of the agreements, conditions, covenants and terms contained in the Trust Agreement; and all agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed or performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to security or otherwise of any Certificates over any other Certificates by reason of the number or date thereof or the time of execution or delivery thereof or for any cause whatsoever, except as expressly provided in the Trust Agreement or therein.

Pledge of Base Rental Payments and Additional Rental; Base Rental Payment Fund. The County shall establish, maintain and hold in trust a special fund separate from any other fund or account established and maintained under the Trust Agreement designated as the "Base Rental Payment Fund." The County has irrevocably pledged and transferred to the Trustee, for the benefit of the Owners, all of its right, title and interest in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement and in and to the Base Rental Payments, which shall be used for the punctual payment of the interest and principal represented by the Certificates and the Base Rental Payments shall not be used for any other purpose while any of the Certificates remain Outstanding. These pledges shall constitute a first and exclusive lien on the funds established under the Trust Agreement and the Base Rental Payments in accordance with the terms of the Trust Agreement.

All Base Rental Payments shall be paid directly by the County to the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation, as the case may be, with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments shall be deposited by the Trustee in the Base Rental Payment Fund and all amounts on deposit therein shall be held in trust by the Trustee, which fund the Trustee has agreed to establish and maintain for the benefit of the Owners until all required Base Rental Payments are paid in full pursuant to the Sublicense Agreement or until such date as the Certificates are no longer Outstanding; provided, however, and notwithstanding

the foregoing, if the Trustee receives a Base Rental Payment amount in excess of the amount necessary to pay the amount due and owing on the next Interest Payment Date, Principal Payment Date, after giving effect to the funds then on deposit in the Base Rental Payment Fund not needed for any other purpose in accordance with the Trust Agreement, amounts in the Base Rental Payment Fund not needed to make such payments may be utilized by the Trustee, as directed in writing by the County, for any other purpose.

Deposit of Base Rental Payments. Except as otherwise provided in the Trust Agreement and as set forth in pertinent part below, the Trustee shall deposit the amounts in the Base Rental Payment Fund at the time and in the priority and manner set forth in the Trust Agreement in the following respective funds, each of which the Trustee shall establish and maintain until the Sublicense Agreement is terminated pursuant to the terms thereof, all required Base Rental Payments are paid in full pursuant to the Sublicense Agreement or until such date as the Certificates are no longer Outstanding whichever shall first occur, and the moneys in each of such funds shall be disbursed only for the purposes and uses authorized under the Trust Agreement.

Interest Fund. The Trustee, on each Interest Payment Date, shall deposit in the Interest Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date. Monies in the Interest Fund shall be used and withdrawn by the Trustee for the purpose of paying the interest represented by the Certificates when due and payable.

Principal Fund. The Trustee, on each Principal Payment Date, shall deposit in the Principal Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion of the Base Rental Payments designated as the principal component coming due on such Principal Payment Date. Monies in the Principal Fund shall be used and withdrawn by the Trustee for the purpose of paying the principal represented by the Certificates when due.

Application of Insurance Proceeds and Condemnation Awards. Except as provided in the Trust Agreement, in the event of any damage to or destruction of any part of the Equipment, caused by the perils covered by the policies of insurance required to be maintained by the County pursuant to the Sublicense Agreement, the County and the Corporation shall cause the proceeds of such insurance to be used in accordance with the Sublicense Agreement as set forth herein under the caption "Sublicense Agreement – Damage, Destruction and Condemnation; Use of Net Proceeds." The County shall hold said proceeds in a separate fund to be established and maintained by the County and designated the "Insurance Proceeds and Condemnation Awards Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Equipment to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The County shall permit withdrawals of said proceeds from time to time upon making a written record of such payment, stating that the County or the Corporation has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred, in reasonable detail. Any balance of said proceeds not required for such repair, reconstruction or replacement as evidenced by a Certificate of the County to the effect that such repair, reconstruction or replacement has been completed and all amounts owing therefor have been paid or provision for the payment therefor has been made may be used by the County for any lawful purpose. Alternatively, if the proceeds of such insurance and any other moneys then available for the purpose are insufficient to fully restore the damaged Equipment, but are at least sufficient, when invested in accordance with the terms of the Trust Agreement to pay all Outstanding Certificates on their respective maturity dates, the County shall cause said proceeds to be transferred to the Trustee to be held and used to defease all of the Certificates in accordance with the terms of the Trust Agreement. In the event insurance proceeds and any other monies then available for the purpose are insufficient to fully restore

damaged Equipment and are insufficient to fully defease all outstanding Certificates in accordance with the terms of the Trust Agreement, then the same shall be transferred to the Trustee with directions to apply the proceeds to the Base Rental Payment Fund established under the Trust Agreement to pay principal and interest with respect to the Certificates, when due, until exhausted, with interest which is due being paid before the payment of any principal which is due. Partial payments shall be pro-rated among Owners based upon the principal amount of Certificates held.

Certain Funds

Acquisition Fund. The County shall establish, maintain and hold in trust a special fund separate from any other fund or account established and maintained under the Trust Agreement designated as the "Acquisition Fund." The County shall administer the Acquisition Fund as provided in the Trust Agreement.

The County will promptly acquire and install the Financed Property pursuant to the Operating Agreement. The County agrees that the Financed Property will be acquired and installed in accordance with the Operating Agreement, within the time period and in accordance with the specifications set forth therein. The County may issue change orders altering the plans and specifications for the Financed Property during the course of acquisition and installation thereof if such changes do not materially reduce or diminish the capacity, adaptability, essentiality or usefulness of the Financed Property.

All moneys in the Acquisition Fund shall be held by the County in trust and applied by the County to the payment of the costs of acquisition and installation of the Financed Property and of expenses incident thereto (or for making reimbursements to the County or the Corporation or any other person, firm or corporation for such costs theretofore paid by him or it).

Upon completion of the installation of the Financed Property, provided that the County shall have determined not to use any remaining amounts in the Acquisition Fund for any other lawful purposes, the County shall transfer any remaining balance in the Acquisition Fund (but less the amount of any retention as specified in the Certificate of Completion) first, to the Rebate Fund to the extent the amount on deposit therein is less than the Rebate Requirement, second, to the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County relating to the Certificates, and thereafter to the Principal Fund.

Upon completion of the installation of the Financed Property, the County shall deliver to the Trustee a Certificate of Completion. The Insurer shall forthwith receive a copy of any Certificate of Completion delivered to the Trustee in accordance with the Trust Agreement.

Capitalized Interest Fund. The Trustee shall establish and maintain a separate special fund, to be held by the Trustee for and on behalf of the County a special fund separate from any other fund or account established and maintained under the Trust Agreement designated as the "Capitalized Interest Fund." The Trustee shall administer the Capitalized Interest Fund as provided in the Trust Agreement.

Moneys in the Capitalized Interest Fund shall only be used to pay a portion of interest represented by the interest portion of Base Rental Payments attributable to the sublicense and lease of a portion of the Financed Property as specified in the Trust Agreement until the earlier of the filing of the Certificate of Completion with the Trustee or June 1, 2001. Upon receipt of the Certificate of Completion, the Trustee shall transfer any remaining balance in the Capitalized Interest Fund not required for the payment of the interest portion of Base Rental Payments prior to the date upon which the

Certificate of Completion has been filed with the Trustee to the Base Rental Payment Fund. Subject to such restriction, moneys in the Capitalized Interest Fund shall be transferred by the Trustee and deposited in the Interest Fund on each Interest Payment Date in an amount which, together with amounts on deposit in the Interest Fund, shall equal the portion of the Base Rental Payments designated as interest components of the Certificates coming due on such Interest Payment Date.

Cost of Issuance Fund. The County shall establish, maintain and hold in trust a special fund separate from any other fund or account established and maintained under the Trust Agreement designated as the "Cost of Issuance Fund" which shall be held by the County and which shall be kept separate and apart from all other funds held by the County. The County shall disburse moneys from the Cost of Issuance Fund on such dates and in such amounts as are necessary to pay Costs of Issuance in accordance with the Tax Certificate. On or before November 1, 2000, the County shall transfer any amounts then remaining in the Cost of Issuance Fund first to the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then to the Administrative Expense Fund to the extent that the amount on deposit therein is less than \$20,000, and thereafter to the Trustee for deposit in the Principal Fund.

Administrative Expense Fund. The County shall establish, maintain and hold in trust a special fund separate from any other fund or account established and maintained under the Trust Agreement designated as the "Administrative Expense Fund" which shall be held by the County and which shall be kept separate and apart from all other funds held by the County.

Amounts in the Administrative Expense Fund shall be paid out from time to time by the County for reasonable and necessary operating expenses of the County relating to the Certificates including, without limitation, expenses incidentally incurred in connection with the purchase of any Certificates, which expenses shall not include the payment of principal or interest with respect to any Certificates.

Amounts in the Administrative Expense Fund which the County at any time determines to be in excess of \$20,000 shall be transferred to the Trustee for deposit in the Principal Fund.

Earnings Fund. The County shall establish, maintain and hold in trust a special fund separate from any other fund or account established and maintained under the Trust Agreement designated as the "Earnings Fund." The County shall administer the Earnings Fund as provided in the Trust Agreement.

The County shall establish and maintain in the Earnings Fund a separate account designated as the "Investment Earnings Account," and a separate account designated as the "Excess Earnings Account." All moneys in the Investment Earnings Account and the Excess Earnings Account shall be held by the County in trust and shall be kept separate and apart from all other funds and money held by the County. Pursuant to the Trust Agreement, all investment earnings on the funds and accounts (other than the Excess Earnings Account) established under the Trust Agreement shall be deposited into the Investment Earnings Account. Amounts on deposit in the Investment Earnings Account shall be transferred to the Excess Earnings Account in accordance with the provisions of the Tax Certificate.

Upon each transfer, any amount remaining in the Earnings Fund or any amount on deposit in the Excess Earnings Account which exceeds the amount required to be maintained therein pursuant to the provision of the Tax Certificate shall be transferred first, to the Administrative Expense Fund to the extent that the amount on deposit therein is less than \$20,000, and thereafter to the Trustee for deposit in the Base Rental Payment Fund by the County. Except as set forth in the proceeding sentence,

amounts on deposit in the Excess Earnings Account shall only be applied to payments made to the United States in accordance with written instructions of the County.

Investments. Any moneys held by the County in the funds and accounts established under the Trust Agreement shall be invested only in Permitted Investments. Any moneys held by the Trustee in the funds and accounts established under the Trust Agreement shall be invested by the Trustee upon the written request of the County Treasurer only in Permitted Investments. In the absence of such direction, moneys shall be invested by the Trustee solely in Permitted Investments set forth in clause (11) of the definition thereof. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with this paragraph. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. Prior to the Completion Date, any interest or profits on such investments shall be deposited in the Acquisition Fund. After the Completion Date, any interest or profits on such investments shall be deposited first in the Rebate Fund to the extent the amount on deposit therein is less than the Rebate Requirement, then in the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County relating to the Certificates, and thereafter transferred to the Trustee for deposit in the Principal Fund. Any interest or profits on such investments shall be deposited in the Earnings Fund and are to be transferred as provided under the caption "Certain Funds - Earnings Fund." For purposes of determining the amount on deposit in any fund or account under the Trust Agreement, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Any Permitted Investments that are registrable securities shall be registered in the name of the Trustee, as trustee in accordance with the Trust Agreement.

Selected Covenants

Observance of Laws and Regulations. The Trustee, the County and the Corporation will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations from the date of the Trust Agreement or thereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege from the date of the Trust Agreement owned or thereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

Other Liens. The County will keep the Equipment and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, other than Permitted Encumbrances and free from any claim or liability which materially impairs the County in conducting its business or utilizing the Equipment, and the Trustee at its option (after first giving the County ten days' written notice to comply therewith and failure of the County to take any necessary steps to defend against or to so comply within such ten-day period) may defend against any and all actions or proceedings in which the validity of the Trust Agreement is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the County from liability for or on account of any of its agreements and covenants contained in the Trust Agreement, or from its liability under the Trust Agreement to defend the validity of the Trust Agreement and to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Certificates are Outstanding, neither the County nor the Corporation will create or suffer to be created any pledge of or lien on the Base Rental Payments other than as described under the caption "Security for Certificates – Pledge of Base Rental Payments and Additional Rental; Base Rental Payment Fund."

Prosecution and Defense of Suits. The County will promptly take such action from time to time as may be necessary or proper, in its reasonable discretion, to remedy or cure any known cloud upon or defect in the title to the Financed Property or any portion thereof, whether existing as of the date of the Trust Agreement or thereafter developing, and will prosecute all actions, suits or other proceedings as may be appropriate for such purpose.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions made by it relating to the receipt, deposit and disbursement of the Base Rental Payments, and such accounting records shall be available for inspection by the County or the Corporation at reasonable hours, under reasonable conditions and with reasonable notice. The Trustee shall deliver a monthly accounting to the County; provided that the Trustee shall not be obligated to report as to any fund or account that (a) has a balance of zero and (b) has not had any activity since the last reporting date.

Further Assurances. Whenever and so often as requested to do so by the Trustee or any Owner, the County and the Corporation will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Trust Agreement or by the Assignment Agreement, Sublicense Agreement, the CSC Sublicense, the Sublicense Assignment or Lease.

Excess Earnings Account of the Earnings Fund; Tax Covenants. There shall be deposited in the Excess Earnings Account such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Excess Earnings Account shall be held by the County in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Certificates in accordance with the Trust Agreement or anything to the contrary contained in the Trust Agreement, all amounts required to be deposited into or on deposit in the Excess Earnings Account shall be governed exclusively by the Trust Agreement and by the Tax Certificate (which is incorporated in the Trust Agreement by reference). The Trustee shall have no duty or obligation to monitor the compliance by the County with the requirements of the Tax Certificate. Any funds remaining in the Excess Earnings Account after payment in full of all of the Certificates and after payment of any amounts described in the Trust Agreement, shall be withdrawn by the County to be used for any lawful purpose.

Continuing Disclosure. Pursuant to the Trust Agreement, the County and the Trustee, in its capacity as Dissemination Agent, shall covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Trust Agreement, failure of the County or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee (at the request of the Purchaser or the Owners of at least 25% aggregate principal amount of Outstanding Certificates upon providing the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby) shall, or any Owner or Beneficial Owner of Certificates may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County or the Trustee, as the case may be, to comply with its obligations as described in this paragraph.

Events of Default and Remedies

Events of Default. The following events shall be Events of Default:

- (1) default in the due and punctual payment of the principal of or premium, if any, on any Certificate when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for prepayment, by declaration or otherwise;
- (2) default in the due and punctual payment of any installment of interest on any Certificate when and as such interest installment shall become due and payable;
- (3) default by the County in the observance of any of the covenants, agreements or conditions on its part in the Trust Agreement contained, if such default shall have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the County and the Corporation by the Trustee, or to the County, the Corporation and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Certificates at the time Outstanding; provided, however, that if such default can be remedied but not within such 30-day period and if the County has taken all action reasonably possible to remedy such default within such 30-day period, such default shall not become an Event of Default for so long as the County shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time reasonably established by the Trustee; or
- (4) an event of default shall have occurred and be continuing under the Sublicense Agreement.

Action on Default. Subject to the Trust Agreement, in each and every case during the continuance of an Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount represented by the Certificates at the time Outstanding (subject to the provisions of the Trust Agreement) shall be entitled, upon notice in writing to the County and the Corporation to exercise any of the remedies granted to the County under the Lease and the Sublicense Assignment, to the Corporation under the Sublicense Agreement, and in addition, to take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Trust Agreement.

Other Remedies of the Trustee. The Trustee shall have the right:

- (1) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the County, the Corporation or any director, officer or employee thereof, and to compel the County or the Corporation or any such director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement;
- (2) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or
- (3) by suit in equity upon the happening of any default under the Trust Agreement to require the County and the Corporation to account as the trustee of an express trust.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the Trust Agreement may be enforced and exercised from time to time and as often the Trustee shall deem expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or any Owner or Owners, then subject to any adverse determination, the Trustee or such Owner or Owners and the County and the Corporation shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Exercise of Remedies Upon Default. Notwithstanding anything to the contrary in the Trust Agreement, so long as the Insurer is not in default under the Municipal Bond Insurance Policy, upon the occurrence and continuance of an Event of Default as defined in the Trust Agreement, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Trust Agreement.

Remedies Not Exclusive. No remedy in the Trust Agreement conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Trust Agreement, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Application of Amounts After Default. Notwithstanding anything to the contrary contained in the Trust Agreement, after a default by the County, all funds and accounts held by the Trustee and all payments received by the Trustee with respect to the rental of the Financed Property after a default by the County pursuant to the Sublicense Agreement, and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Sublicense Agreement, shall be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied:

(1) to the payment of all amounts due the Trustee described under the heading "The Trustee - Compensation and Indemnification of the Trustee"; and

(2) to the payment of all amounts then due as interest with respect to the Certificates, and thereafter to the payment of all amounts due as principal with respect to the Certificates, in respect of which or for the benefit of which, money has been collected (other than Certificates which have matured or otherwise become payable prior to such Event of Default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable with respect to such Certificates.

Trustee May Enforce Claims Without Possession of Certificates. All rights of action and claims under the Trust Agreement or the Certificates may be prosecuted and enforced by the Trustee without the possession of any of the Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of

an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Certificates in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Certificate shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or trustee, or for any other remedy under the Trust Agreement, unless such Owner has previously given written notice to the Trustee of a continuing Event of Default; the Owners of not less than 25% in principal amount of the Outstanding Certificates shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Trust Agreement; such Owner or Owners have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceedings; and no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in principal amount of the Outstanding Certificates; it being understood and intended that no one or more Owners of Certificates shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Certificates, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner in the Trust Agreement provided and for the equal and ratable benefit of all the Owners of Certificates. Nothing in the Trust Agreement contained shall, however, affect or impair the right of any Owner to enforce the payment of the principal component of or the prepayment price of and the interest component of the Base Rental Payments represented by any Certificate at and after the maturity or earlier prepayment.

The Trustee

Employment of the Trustee. The County and the Corporation under the Trust Agreement appoint and employ the Trustee to receive, deposit and disburse the Rental Payments, to prepare, execute, deliver and transfer the Certificates and to perform the other functions contained in the Trust Agreement; all in the manner provided in the Trust Agreement and subject to the conditions and terms thereof. By executing and delivering the Trust Agreement, the Trustee accepts the appointment and employment hereinabove referred to and accepts the rights and obligations of the Trustee provided in the Trust Agreement, subject to the conditions and terms thereof. The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

Duties, Removal and Resignation of the Trustee. The County and the Corporation may, by an instrument in writing and upon 30 days written notice remove the Trustee initially a party to the Trust Agreement and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Trust Agreement and any successor thereto if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority in aggregate principal amount represented by the Certificates at the time Outstanding (or their attorneys duly authorized in writing), but any such successor Trustee shall be a bank with trust powers or trust company doing business and having a principal corporate trust office in California or New York, having (or if such bank or trust company is a member of a bank holding company system, its bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000) and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually,

pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this paragraph the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the County, the Corporation and the Insurer and by mailing notice, first class, postage prepaid, of such resignation to the Owners at their addresses appearing on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement. Upon receiving such notice of resignation, the County and the Corporation shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the County and the Corporation do not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the County, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

For such time as the Municipal Bond Insurance Policy shall be in full force and effect and so long as the Insurer is not in default under its Municipal Bond Insurance Policy (1) the Trustee may be removed at any time, at the request of the Insurer, for any breach of the trust set forth in the Trust Agreement, (2) the Insurer shall receive prior written notice of any Trustee resignation, (3) every successor Trustee appointed pursuant to the Trust Agreement shall be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$75,000,000 and acceptable to the Insurer, and (4) no removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to the Insurer, shall be appointed.

Compensation and Indemnification of the Trustee. The County shall from time to time, subject to any written agreement then in effect with the Trustee, pay the Trustee reasonable compensation for all its services rendered under the Trust Agreement and reimburse the Trustee for all its advances and expenditures under the Trust Agreement, including but not limited to, advances to and fees and expenses of accountants, agents, appraisers, consultants or other experts, and counsel not directly employed by the Trustee but an attorney or firm of attorneys retained by the Trustee, employed by it in the exercise and performance of its rights and obligations under the Trust Agreement; provided, however, that the Trustee shall not have any lien for such compensation or reimbursement against any moneys held by it in any of the funds established under the Trust Agreement or under the Sublicense Agreement (except that such compensation or reimbursement may be made from the Cost of Issuance Fund held by the County to the extent provided in the Trust Agreement). The Trustee may take whatever legal actions are lawfully available to it directly against the County or the Corporation. The rights of the Trustee under the Trust Agreement are in addition to the rights granted to the Trustee pursuant to the Sublicense Agreement.

Except as otherwise expressly provided in the Trust Agreement, no provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement or in the exercise of any of its rights or powers under the Trust Agreement.

The County covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise and performance of its powers and duties under the Trust Agreement, including the costs of expenses of defending against any claim of liability including, without limitation, any claim arising out of the use, presence, storage, disposal or release of any Hazardous Substances on or about the Financed Property, but excluding any and all losses, expenses and liabilities which are due to

the negligence or intentional misconduct of the Trustee, its officers, directors, agents or employees. Such indemnity shall survive the discharge of the Trust Agreement or the resignation or removal of the Trustee.

Protection of the Trustee. The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, opinion, notice, request, requisition, resolution, direction, instruction, statement, telegram, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall not be bound to recognize any person as an Owner of any Certificate or to take any action at the request of any such person unless such Certificate shall be deposited with the Trustee or satisfactory evidence of the ownership of such Certificate shall be furnished to the Trustee. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request or direction of any of the Owners of the Certificates pursuant to the Trust Agreement, unless such Owners shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee, against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. The Trustee may consult with counsel, who may be counsel to the County or the Corporation, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it under the Trust Agreement in good faith in accordance therewith.

The Trustee shall not be responsible for the sufficiency or adequacy of the Certificates, the Lease, the Sublicense Assignment, the Sublicense Agreement, or of the assignment made to it by the Assignment Agreement, or for statements made in the preliminary or final official statement relating to the Certificates, or of the title to or value of the Financed Property.

The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default under the Trust Agreement, except failure of any of the payments to be made to the Trustee required to be made in accordance with the Trust Agreement unless the Trustee shall be specifically notified in writing of such default or Event of Default by the County, the Corporation or by the Owners of not less than 25% in aggregate principal amount represented by the Certificates then Outstanding.

Whenever in the administration of its rights and obligations under the Trust Agreement the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Trust Agreement) may be deemed to be conclusively proved and established by a Certificate of the County, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Certificates and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Trust Agreement. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the County or the Corporation, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the Corporation or the County as freely as if it were not the Trustee under the Trust Agreement.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers under the Trust Agreement and perform any rights and obligations required of it under the Trust Agreement by or through agents, attorneys or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its rights and obligations under the Trust Agreement, and the Trustee shall not be answerable for the default or misconduct of any such agent, attorney or receiver selected by it with reasonable care. The Trustee shall not be liable for any error of judgment made by it in good faith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be answerable for the exercise of any trusts or powers under the Trust Agreement or for anything whatsoever in connection with the funds established under the Trust Agreement, except only for its own willful misconduct or negligence.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of not less than a majority (or other percentage provided for in the Trust Agreement) in aggregate principal amount of the Certificates at the time Outstanding relating to the exercise of any right or remedy available to the Trustee under the Trust Agreement.

The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the County of the Financed Property. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Sublicense Agreement, the Lease, the Sublicense Assignment or the Trust Agreement for the existence, furnishing or use of the Financed Property.

Every provision of the Trust Agreement, the Lease, the Sublicense Assignment, the Sublicense Agreement and the Assignment Agreement relating to the conduct or liability of the Trustee shall be subject to the provisions of the Trust Agreement.

In acting as Trustee under the Trust Agreement, the Trustee acts solely in its capacity as Trustee for the Owners and not in its individual or personal capacity, and all persons, including without limitation, the Owners, the County and the Corporation, having any claim against the Trustee shall look only to the funds and accounts held by the Trustee under the Trust Agreement for payment, except as otherwise specifically provided in the Trust Agreement. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

The recitals of facts, covenants and agreements in the Trust Agreement and in the Certificates shall be taken as statements, covenants and agreements of the County or the Corporation, as the case may be, and the Trustee assumes no responsibility for the correctness of the same.

Amendment of or Supplement to Trust Agreement

Amendment or Supplement. The Trust Agreement and the rights and obligations of the County, the Corporation, the Owners and the Trustee under the Trust Agreement may be amended or supplemented at any time by an amendment thereof or supplement thereto which shall become binding when approved by the written consent of the Insurer, or, if the Insurer is in default under the Municipal Bond Insurance Policy, when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, are filed with the Trustee. No such amendment or supplement shall (1) extend the Principal Payment Date of any Certificate or reduce the rate of interest represented thereby or extend the time of payment of such interest or reduce the amount of principal represented thereby, without the prior written

consent of the Owner of each Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment of or supplement to the Trust Agreement without the prior written consent of the Owners of all Certificates then Outstanding, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, or (4) amend the provisions in the Trust Agreement relating to amendment or supplement without the prior written consent of the Insurer and the Owners of all Certificates then Outstanding.

The Trust Agreement and the rights and obligations of the County, the Corporation, the Owners and the Trustee under the Trust Agreement may also be amended or supplemented at any time by an amendment of or supplement to the Trust Agreement which shall become binding upon execution, with the consent of the Insurer but without the written consents of any Owners, but only to the extent permitted by law and after receipt of an unqualified approving Opinion of Counsel and only for any one or more of the following purposes:

- (1) to add to the agreements, conditions, covenants and terms required to be observed or performed under the Trust Agreement by the County or the Corporation, or to surrender any right or power reserved under the Trust Agreement to or conferred under the Trust Agreement on the County or the Corporation, and which in either case shall not materially adversely affect the interests of the Owners; or
- (2) to provide for additional or substitute Financed Property as may be requested from time to time by the County in accordance with the Sublicense Agreement; or
- (3) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement which the County or the Corporation may deem desirable or necessary and not inconsistent with the Trust Agreement, and which shall not materially adversely affect the interests of the Owners; or
- (4) for any other reason, provided such amendment or supplement does not materially adversely affect the interests of the Owners, provided further that the County, the Corporation and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of the Trust Agreement have been met with respect to such amendment or supplement.

Any provision of the Trust Agreement expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer under the Trust Agreement without the prior written consent of the Insurer.

The foregoing provisions shall not prevent any Owner from accepting any amendment as to the particular Certificates owned by him, provided that due notation thereof is made on such Certificates.

Disqualified Certificates. Certificates actually known by the Trustee to be owned or held by or for the account of the County (but excluding Certificates held in any pension or retirement fund of the County) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates described under this summary section entitled "Amendment of or Supplement to Trust Agreement," and shall not be entitled to consent to or take any other action described in the Trust Agreement, and the Trustee may adopt appropriate regulations to require each Owner, before his consent described in the Trust Agreement shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as described in the Trust Agreement and summarized herein.

Defeasance of Certificates

Discharge of Certificates and Trust Agreement. If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Certificates the interest and principal represented thereby at the times and in the manner stipulated under the Trust Agreement and therein, then such Owners shall cease to be entitled to the pledge of and lien on the Base Rental Payments as provided in the Trust Agreement, and all agreements and covenants of the County, the Corporation and the Trustee to such Owners under the Trust Agreement shall thereupon cease, terminate and become void and shall be discharged and satisfied.

Any Outstanding Certificates shall, prior to the maturity thereof, be deemed to have been paid within the meaning and with the effect expressed in the Trust Agreement if (i) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities which are not callable or subject to prepayment prior to their respective maturity dates, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, shall be sufficient (as verified by a report of an independent certified public accountant or other independent financial consultant), to pay when due the principal of, and interest due and to become due on, said Certificates on and prior to the maturity date thereof, and (ii) the County shall have given the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, as soon as practicable in the same manner as a notice of prepayment is mailed pursuant to the Trust Agreement, a notice to the Owners of such Certificates and to the securities depository and information services specified in the Trust Agreement that the deposit required by (i) above has been made with the Trustee and that said Certificates are deemed to have been paid in accordance with the Trust Agreement and stating such maturity dates upon which moneys are to be available for the payment of the principal of said Certificates. Neither the securities nor moneys deposited with the Trustee as described in the foregoing nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of, and interest on said Certificates; provided that Defeasance Securities deposited with the Trustee as described in the foregoing may be sold upon the written request of the County and the proceeds concurrently reinvested in other Defeasance Securities which satisfy the conditions of (i) above provided that the Trustee receives an Opinion of Counsel to the effect that such sale and reinvestment does not adversely affect the exclusion of interest on the Certificates from federal income taxes, and provided further that any cash received from such principal or interest payments on such obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, and at the direction of the County, be reinvested in Defeasance Securities maturing at times and in amounts, together with the other moneys and payments with respect to securities then held by the Trustee pursuant to the Trust Agreement, sufficient to pay when due the principal of, and interest to become due with respect to said Certificates on and prior to such maturity date thereof, and interest earned from such reinvestments shall, upon receipt by the Trustee of a Written Request of the County, be paid over to the County, as received by the Trustee, free and clear of any trust, lien or pledge.

Any release under the Trust Agreement shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under the Trust Agreement and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts by the Trust Agreement created and the performance of its powers and duties under the Trust Agreement; provided however, that the Trustee shall have no right, title or interest in, or lien on, any moneys or securities deposited pursuant to the provisions of the Trust Agreement related to defeasance.

After the payment or deemed payment of all the interest and principal represented by all Outstanding Certificates as described in the foregoing, the Trustee shall execute and deliver to the

Corporation and the County all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Trust Agreement, and the Trustee shall pay over or deliver to the County all moneys or securities held by it pursuant to the Trust Agreement which are not required for the payment of the interest and principal represented by such Certificates. Notwithstanding the discharge and satisfaction of the Trust Agreement, Owners of Certificates shall thereafter be entitled to payments due under the Certificates pursuant to the Sublicense Agreement, but only from amounts deposited as described in the first paragraph under this summary section and from no other source.

Unclaimed Moneys. Anything contained in the Trust Agreement to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal represented by any of the Certificates which remain unclaimed for two years after the date when the payments represented by such Certificates have become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal represented by such Certificates have become payable, shall be repaid by the Trustee to the County as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the County for the payment of the interest and principal represented by such Certificates; provided, however, that before being required to make any such payment to the County, the Trustee shall mail a notice to the Owner that such unclaimed funds shall be returned to the County within 30 days.

Municipal Bond Insurance Policy

Payments from Municipal Bond Insurance Policy. Payment of the principal and interest with respect to the Certificates shall be insured by the Municipal Bond Insurance Policy provided by the Insurer. So long as the Municipal Bond Insurance Policy is in full force and effect and the Insurer is not in default thereunder, the County and the Trustee agree to comply with the following provisions by which the Insurer will pay any principal or interest payment due and payable with respect to the Certificates but for which there are insufficient funds for the payment thereof:

(a) At least one day prior to all Interest Payment Dates, the Trustee will determine whether there will be sufficient funds in the funds and accounts maintained by it under the Trust Agreement to pay the principal or interest with respect to the Certificates on such Interest Payment Date. If the Trustee determines that there will be insufficient funds in such funds or accounts, the Trustee shall so notify the Insurer. Such notice shall specify the amount of the anticipated deficiency, the Certificates to which such deficiency is applicable and whether such deficiency will be as to principal or interest, or both. If the Trustee has not so notified the Insurer at least one day prior to an Interest Payment Date, the Insurer will make payments of principal or interest with respect to the Certificates on or before the first day next following the date on which the Insurer shall have received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to the Insurer as described in (a) above, make available to the Insurer and, at the Insurer's direction, to the United States Trust Company of New York, as insurance trustee for the Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books for the Certificates maintained by the Trustee and all records relating to the funds and accounts maintained by the Trustee under the Trust Agreement.

(c) The Trustee shall provide the Insurer and the Insurance Trustee with a list of the Owners of the Certificates entitled to receive principal or interest payments from the Insurer under the terms of the Municipal Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the Owners of the Certificates entitled to receive full or partial interest payments from the Insurer and (ii) to pay principal represented by the Certificates surrendered to the

Insurance Trustee by the Owners of the Certificates entitled to receive full or partial principal payments from the Insurer.

(d) The Trustee shall, at the time it provides notice to the Insurer as described in (a) above, notify Owners of the Certificates entitled to receive the payment of principal or interest with respect to the Certificates from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or part of the interest payments next coming due upon proof of entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of such Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Certificates (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Certificates to be registered in the name of the Insurer) for payment to the Insurance Trustee, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Certificates for payment thereon first to the Trustee who shall note on such Certificates the portion of the principal paid by the Trustee, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee has notice that any payment of principal or interest with respect to the Certificates which has become Due For Payment (as defined in the Municipal Bond Insurance Policy) and which is made to such Owner by or on behalf of the County has been deemed a preferential transfer and theretofore recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall notify the Insurer and, at the time the Insurer is notified, notify all Owners of the Certificates that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Insurer its records evidencing the payments of principal and interest with respect to the Certificates which have been made by the Trustee and subsequently recovered from such Owner and the dates on which such payments were made.

(f) In addition to those rights granted the Insurer under the Trust Agreement, the Insurer shall, to the extent it makes payment of principal or interest with respect to the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Municipal Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon receipt from the Insurer of proof of the payment of interest thereon to the Owners of the Certificates, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon surrender of the Certificates by the Owners thereof, together with proof of the payment of principal thereof.

(g) Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal and/or interest due with respect to the Certificates shall be paid by the Insurer pursuant to the Municipal Bond Insurance Policy, such Certificates shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the County, and the assignment and pledge of the Base Rental Payment Fund and all covenants, agreements and other obligations of the County to the Owners of the Certificates shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Owners.

Consent of Insurer. So long as the Insurer is not in default under the Municipal Bond Insurance Policy, the Insurer's consent shall be required for the initiation or approval of any action which

requires the consent of the Owners, including, but not limited to, consent, when required, for the following purposes: (i) execution and delivery of any Supplemental Trust Agreement or any amendment, supplement or change to or modification of the Sublicense Agreement; and (ii) removal of the Trustee and selection and appointment of any successor trustee. Notwithstanding anything to the contrary in the Trust Agreement, the rights given to the Insurer under the Trust Agreement to give consents, directions and approvals shall not be effective so long as it is in default of its obligations under the Municipal Bond Insurance Policy.

So long as the Insurer is not in default under the Municipal Bond Insurance Policy, any reorganization or liquidation plan with respect to the County must be acceptable to the Insurer. In the event of any reorganization or liquidation, the Insurer shall have the right to vote on behalf of all Owners who hold Certificates absent a default under the Municipal Bond Insurance Policy.

Effect of Municipal Bond Insurance Policy. Notwithstanding any other provision of the Trust Agreement, in determining whether any actions taken pursuant to the terms and provisions of the Trust Agreement or under the Sublicense Agreement are adverse to the interests of the Owners of the Certificates, the effect on the Owners shall be considered as if there were no Municipal Bond Insurance Policy.

LEASE

General

The Lease provides the terms and conditions of the lease of the Equipment by the Corporation. Certain provisions of the Lease are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the Lease.

Financed Property

The County leases to the Corporation and the Corporation hires from the County, on the terms and conditions set forth in the Lease, the Equipment, situated in the State of California, County of San Diego, described in the Lease (the "Equipment").

Term

The term of the Lease will commence on the Closing Date and shall end on the Expiry Date, unless such term is sooner terminated or is extended as provided in the Lease. If prior to the Expiry Date all Base Rental Payments under the Sublicense Agreement shall have been paid, or provision therefor has been made in accordance with the Trust Agreement, the term of the Lease shall end simultaneously therewith.

If the Sublicense Agreement is extended beyond the Expiry Date pursuant to the terms thereof, the Lease shall also be extended to the day following the date of termination of the Sublicense Agreement.

ASSIGNMENT OF SUBLICENSE

General

The Sublicense Assignment provides the terms and conditions of the transfer and assignment of the Software Licenses by the Corporation. Certain provisions of the Sublicense

Assignment are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the Sublicense Assignment.

Financed Property

Pursuant to the Sublicense Assignment, the County grants, transfers and assigns to the Corporation without recourse (i) the License Rights, including, but not limited to, all right, title and interest of the County in the Software Licenses, subject to the respective terms thereof; (ii) the right to take all actions and give all consents under the Software Licenses; (iii) the right of access more particularly described in the Software Licenses; and (vi) any and all other rights and remedies of the County in the Software Licenses, subject to the respective terms thereof, as licensee or sublicensee thereunder for the purpose of performing and discharging each agreement, covenant and obligation of the County contained in the Sublicense Agreement and in the Trust Agreement.

Term

The term of the Sublicense Assignment will commence on the Closing Date and shall end on the Expiry Date, unless such term is sooner terminated or is extended as provided in the Sublicense Assignment. If prior to the Expiry Date all Base Rental Payments under the Sublicense Agreement shall have been paid, or provision therefor has been made in accordance with the Trust Agreement, the term of the Sublicense Assignment shall end simultaneously therewith.

If the Sublicense Agreement is extended beyond the Expiry Date pursuant to the terms thereof, the Sublicense Assignment shall also be extended to the day following the date of termination of the Sublicense Agreement.

SUBLICENSE AGREEMENT

General

The Sublicense Agreement provides the terms and conditions of the lease and sublicense of the Financed Property by the County. Certain provisions of the Sublicense Agreement are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the Sublicense Agreement.

Financed Property

Lease and Sublicense of the Financed Property. The Corporation leases to, or licenses the use by, the County, and the County rents or hires the use of, from the Corporation, the Financed Property on the conditions and terms set forth in the Sublease Agreement. The County agrees and covenants that during the term of the Sublease Agreement, except as otherwise provided, it will use the Financed Property for public purposes so as to afford the public the benefits contemplated by the Sublease Agreement and so as to permit the Corporation to carry out its agreements and covenants contained in the Sublease Agreement and in the Trust Agreement, and the County further agrees and covenants that during the term of the Sublicense Agreement it will not abandon or vacate the Financed Property.

Prohibition Against Encumbrance or Sale. The County will not create or suffer to be created any mortgage, pledge, lien, charge or encumbrance upon the Financed Property without obtaining the prior written consent of the Corporation, except Permitted Encumbrances. The County will not sell or otherwise dispose of the Financed Property or any property essential to the proper operation of the Financed Property without obtaining the prior written consent of the Corporation, except as otherwise

provided in the Sublicense Agreement. Notwithstanding anything to the contrary in the Sublicense Agreement, with the consent of the Insurer, which will not be unreasonably withheld, the County may assign, transfer or sublease any and all of the Property or its other rights under the Sublicense Agreement, provided that (a) the rights of any assignee, transferee or sublessee shall be subordinate to all rights of the Corporation under the Sublicense Agreement, (b) no such assignment, transfer or sublease shall relieve the County of any of its obligations under the Sublicense Agreement, (c) the assignment, transfer or sublease shall not result in a breach of any covenant of the County contained in the Sublicense Agreement, and (d) no such assignment, transfer or sublease shall confer upon the parties thereto any remedy which allows recovery of possession of the Financed Property unless concurrently with granting such remedy the same shall be also granted under the Sublicense Agreement by an amendment to the Sublicense Agreement which shall in all instances be prior to and superior to any such assignment, transfer or sublease.

Liens. In the event the County shall at any time during the term of the Sublicense Agreement cause any improvements or modifications to the Financed Property to be supplied in or upon or attached to the Financed Property, the County shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the County in, upon, about or relating to the Financed Property and shall keep the Financed Property free of any and all liens against the Financed Property or the Corporation's interest therein. In the event any such lien attaches to or is filed against the Financed Property or the Corporation's interest therein, and the enforcement thereof is not stayed, or if so stayed such stay thereafter expires, the County shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the County shall forthwith pay and discharge or cause to be paid and discharged such judgment. Any such improvements or modifications shall be such that the same may be removed without damage or destruction to the Financed Property so that the Financed Property may be returned at the end of the term of the Sublicense Agreement in the same condition as when provided to the County.

Substitution or Removal of Property. The County may amend the Sublicense Agreement and the Lease and the Sublicense Assignment, with the written consent of the Insurer, to substitute other property (the "Substituted Property") for existing Financed Property or to remove Equipment or Software (including undivided interests therein) from the definition of Financed Property, upon compliance with all of the conditions set forth in the following paragraph. After a Substitution or Removal, the part of the Financed Property for which the Substitution or Removal has been effected shall be released from the leasehold/license under the Sublicense Agreement.

No Substitution or Removal shall take place under the Sublicense Agreement until the County delivers to the Corporation and the Trustee the following:

(1) A Certificate of the County containing a description of all or part of the Financed Property to be released and, in the event of a Substitution, a description of the Substituted Property to be substituted in its place;

(2) An Amendment to the Sublicense Agreement which shall reflect (A) the Substitution or Removal and (B) any conditions precedent to the written consent of the Insurer, which conditions may include, but not be limited to, requirements regarding the nature and scope of the insurance to be provided under the Sublicense Agreement, the nature and scope of the responsibility of the County to make Base Rental Payments and other payments under the Sublicense Agreement, and the utilization of any insurance proceeds.

(3) An Opinion of Counsel to the effect that the amendments to the Sublicense Agreement contemplating Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the County and the Corporation, enforceable in accordance with their terms;

(4) An Opinion of Counsel that the Substitution or Removal does not cause the interest with respect to the Certificates to be includable in gross income of the Owners thereof for federal income tax purposes;

(5) A Certificate of the County stating that the County has complied with the covenants contained in the Sublicense Agreement with respect to the Substituted Property;

(6) A written consent of the Insurer; and

(7) Evidence that the County has delivered to the Rating Agencies copies of the documents and certificates described in clauses (1) and (6) above.

Term of Sublicense Agreement

The term of the Sublicense Agreement shall commence on the Closing Date, and shall end on the Expiry Date, unless sooner terminated as hereinafter described. If prior to the Expiry Date, the rental payable under the Sublicense Agreement shall be fully paid and all Certificates shall have been fully paid or defeased, in accordance with the Trust Agreement, the term of the Sublicense Agreement shall end ten days thereafter or ten days after written notice by the County to the Corporation to the effect that the rental payable under the Sublicense Agreement shall be fully paid and all Certificates have been fully paid, whichever is earlier, and the Sublicense Agreement shall thereupon terminate.

Rental Payments

Base Rental Subject to the non-appropriation provisions of the Sublicense Agreement, the County shall pay to the Corporation rental as Base Rental Payments with respect to the Financed Property at the times and in the amounts set forth in the Base Rental Payment Schedule attached to the Sublicense Agreement, with both of each fiscal year's semi-annual Base Rental Payments to be deposited with the Trustee on or before July 5 of such fiscal year (or the next Business Day if July 5 does not fall on a Business Day), commencing July 5, 2000. The obligation of the County to pay Base Rental Payments (and Additional Rental) shall commence on the Closing Date. Each Base Rental Payment shall be paid by wire transfer not later than one Business Day preceding its due date.

Additional Rental Subject to the non-appropriation provisions of the Sublicense Agreement, the County shall also pay, as rental under the Sublicense Agreement, in addition to the Base Rental Payments, to the Corporation or the Trustee, as hereinafter provided, such amounts in each year as shall be required for the payment of all costs and expenses incurred by the Corporation in connection with the execution, performance or enforcement of the Sublicense Agreement or the assignment of the Sublicense Agreement pursuant to the Assignment Agreement, the Trust Agreement or the respective interests in the Financed Property and the lease of the Financed Property by the Corporation to the County under the Sublicense Agreement, including but not limited to all fees, costs and expenses and all administrative costs of the Corporation relating to the Financed Property including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Certificates), fees of auditors, accountants, attorneys or engineers, insurance premiums, and all other reasonable and necessary administrative costs

of the Corporation or charges required to be paid by it to comply with the terms of the Certificates or the Trust Agreement; provided, however, the maximum amount payable by the County under the Sublicense Agreement to the Corporation per year shall not exceed \$20,000.

The foregoing Additional Rental shall be billed to the County by Corporation or the Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Corporation, the Trustee or the Trustee on behalf of the Corporation for one or more of the items above described, or that such amount is then so payable for such items. Amounts so billed shall be paid by the County no later than the latest time as such amounts may be paid without penalty or, if no penalty is associated with a late payment of such amounts, within 30 days after receipt of a bill by the County for such amounts.

The Corporation may issue bonds and may enter into leases to finance facilities other than the Financed Property. The administrative costs of the Corporation shall be allocated among said facilities and the Financed Property, as hereinafter in this paragraph described. Any taxes levied against the Corporation with respect to the Financed Property, the fees of the Trustee and any other expenses directly attributable to the Financed Property shall be included in the Additional Rental payable under the Sublicense Agreement. Any taxes levied against the Corporation with respect to real property other than the Financed Property, the fees of any trustee or paying agent under any resolution securing bonds of the Corporation or any trust agreement or indenture other than the Trust Agreement, and any other expenses directly attributable to any facilities other than the Financed Property shall not be included in the administrative costs of the Financed Property and shall not be paid from the Additional Rental payable under the Sublicense Agreement. Any expenses of the Corporation not directly attributable to any particular project of the Corporation shall be equitably allocated among all such projects, including the Financed Property, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants employed by the Corporation to consider the question and render an opinion thereon, shall be final and conclusive determination as to such allocation.

Consideration. Payments of Base Rental Payments and Additional Rental for each Lease Year or portion thereof during the term of the Sublicense Agreement shall constitute the total rental for such Lease Year or portion thereof and shall be paid or payable by the County for and in consideration of the Financed Property.

Payment; Credit. Each installment of Base Rental Payments payable under the Sublicense Agreement shall be paid in lawful money of the United States of America to or upon the order of the Corporation at the corporate trust office of U.S. Bank Trust National Association in St. Paul, Minnesota or such other place as the Trustee shall designate. Any such installment of rental accruing under the Sublicense Agreement which shall not be paid when due shall remain due and payable until received by the Trustee, and to the extent permitted by law shall bear simple interest at the rate of ten percent per annum from the date when the same is due under the Sublicense Agreement until the same shall be paid. Notwithstanding any dispute between the County and the Corporation, the County shall make all rental payments when due, without deduction or offset of any kind, and shall not withhold any rental payments pending the final resolution of any such dispute. In the event of a determination that the County was not liable for said rental payments or any portion thereof, said payments or excess of payments, as the case may be, shall, at the option of the County, be credited against subsequent rental payments due under the Sublicense Agreement or be refunded at the time of such determination. Amounts required to be deposited by the County with the Trustee described in the foregoing on any date shall be reduced to the extent of amounts on deposit on such date in the Interest Fund or the Principal Fund held under the Trust Agreement.

No Prepayment of Base Rental Payments. There shall be no right of prepayment of Base Rental Payments under the Sublicense Agreement; provided, however, the foregoing shall not preclude the County from causing rent to be deemed fully paid or defeased, in accordance with the Trust Agreement.

Obligation Subject to Appropriation; Nonappropriation. The obligation of the County to make the Base Rental Payments and Additional Rental payments coming due in any particular fiscal year under the Sublicense Agreement shall be absolutely subject in all respects to the Board having duly budgeted and appropriated funds sufficient to pay the Base Rental Payments and Additional Rental payments coming due in such fiscal year, and the County through the Board shall have the right, to be exercised in its sole and absolute discretion, for any reason, not to budget and appropriate such funds.

The County shall include an appropriation for all Base Rental Payments and Additional Rental payments due in a fiscal year in its recommendation for the proposed budget for such fiscal year and shall provide a certified copy of such proposed budget to the Trustee as soon as the same is available.

The County shall:

(1) unless the Board shall decline to approve the proposed appropriation for Base Rental Payments and Additional Rental payments in accordance with the first paragraph under this heading, include such appropriation in its proposed and final budget for such fiscal year in accordance with applicable law and, as soon as the same is adopted by the Board but in no event later than 30 days following the adoption of such budget, provide to the Trustee a Certificate of the Chief Financial Officer or his or her designee in accordance with the Sublicense Agreement; and

(2) make the appropriation included in the proposed and final budgets for such fiscal year as described in (1) above in an amount sufficient to pay all amounts of Base Rental Payments and Additional Rental payments coming due in such fiscal year.

In the event that on July 1, the Board of the County has not adopted its annual budget, the County shall submit a special board letter or similar agenda item requesting that the Board take prompt action to make an appropriation for all Base Rental Payments and Additional Rental payments due in the related fiscal year.

If the Board for any reason fails on or before July 5 of a fiscal year (or the next Business Day if July 5 does not fall on a Business Day) to duly appropriate funds sufficient to pay all amounts of Base Rental Payments and Additional Rental payments coming due in such fiscal year or, prior to such date, the Board takes any action to revoke or eliminate such an appropriation, including, but not limited to, by adopting a final budget that does not include an appropriation for Base Rental Payments and Additional Rental payments coming due in such year, then the Sublicense Agreement shall terminate, without penalty to the County, such termination to be effective as of 12:01 a.m. (California time) on the earlier of such date or the date of adoption of such final budget, and the Sublicense Agreement shall thereupon be rendered null and void and of no further force or effect; provided that notwithstanding any such termination or the exercise by the Trustee or the Corporation of any rights consequent upon such termination, the County shall remain obligated to:

(1) pay any Base Rental Payments and Additional Rental payments arising or accruing prior to the effective time of such termination and remaining unpaid as of the effective time of such termination and for which an appropriation exists, and the rights of the Trustee and the Corporation to enforce such obligation shall continue;

(2) perform its other obligations and liability under the Sublicense Agreement arising or accruing prior to the effective time of such termination, and for which any necessary appropriation exists and the rights of the Trustee and the Corporation to enforce such obligations and liabilities shall continue;

(3) pay Base Rental Payments and Additional Rental payments from available amounts in the Acquisition Fund (net of amounts owing to contractors, subcontractors and others providing vendor or installation services with respect to the Financed Property services); and

(4) surrender possession of the Financed Property to the Corporation or the Trustee (as assignee of the Corporation) and pay the costs required to be borne by the County in connection with such surrender.

Upon a failure of the Board to appropriate Base Rental Payments and Additional Rental payments by July 5 of a fiscal year (or the next Business Day if July 5 does not fall on a Business Day) or, if earlier, upon the occurrence of any action by the Board to revoke or eliminate such an appropriation, then as soon as practicable but no later than three Business Days after such date, or after the earlier action, as the case may be, the County shall provide the Trustee with written notice of such nonappropriation, but failure to give such notice shall not extend the term of the Sublicense Agreement beyond the last day for which Base Rental Payments and Additional Rental payments have been appropriated.

In the event of such termination, the County agrees to peaceably surrender possession of the Financed Property in good order and condition and in a state of repair that is consistent with prudent use and conscientious maintenance except for reasonable wear and tear. The Corporation or the Trustee may exercise all available legal and equitable rights and remedies in retaking possession of the Financed Property. Subsequent to a termination of the Sublicense Agreement as described in the foregoing and pursuant to the Sublicense Agreement, the County shall have no continuing obligation to make payments of Base Rental Payments, Additional Rental payments, or any other amounts under the Sublicense Agreement. However, in the event that the County fails to surrender possession of the Financed Property upon the termination of the Sublicense Agreement, to the extent permitted by law and of any available appropriation, the County shall be obligated to pay holdover rent in an amount equal to the amount of Base Rental Payments and Additional Rental payments that would have been due under the Sublicense Agreement for the number of days during which the County fails to deliver possession of the Financed Property to the Corporation.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE COUNTY OF SAN DIEGO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Certain Covenants

Maintenance of the Financed Property by the County; Use of Software; Maintenance of Sublicense and Operating Agreement. The County agrees that, at all times during the term of the Sublicense Agreement, it will, at its own cost and expense, maintain, preserve and keep the Financed Property and every portion thereof in good repair, working order and condition and that it will from time

to time make or cause to be made all necessary and proper repairs, replacements and renewals. The Corporation shall have no responsibility in any of these matters or for the making of additions or improvements to the Financed Property. The County will use the Software in accordance with the terms of the Sublicense and the Operating Agreement and will not voluntarily terminate the Sublicense or the Operating Agreement absent a default on the part of CSC and in no event unless the County has pursuant to a substitute operating agreement with a similar outsourcing entity, or otherwise, provided for the continuation of use of each component of the Financed Property for the term hereof; provided, however, that the foregoing shall not preclude the Board from exercising the rights of the Board as described under the heading "Rental Payments – Obligation Subject to Appropriation; Nonappropriation."

Taxes, Other Governmental Charges and Utility Charges. The parties to the Sublicense Agreement contemplate that the Financed Property will be used for public purposes by the County and, therefore, that the Financed Property will be exempt from all taxes presently assessed and levied with respect to real and personal property, respectively. In the event that the use, possession or acquisition by the County or the Corporation of the Financed Property is found to be subject to taxation in any form, the County will pay during the term of the Sublicense Agreement, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Financed Property and any other property acquired by the County in substitution for, as a renewal or replacement of, or a modification, improvement or addition to, the Financed Property, as well as all gas, water, steam, electricity, heat, power, air conditioning, telephone, utility and other charges incurred in the operation, maintenance, use, access to and upkeep of the Financed Property; provided, that, with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the County shall be obligated to pay only such installments as are accrued during such time as the Sublicense Agreement is in effect.

Tax Covenants. Subject to the rights of the Board as described under the heading "Rental Payments – Obligation Subject to Appropriation; Nonappropriation" and pursuant to the Sublicense Agreement, the County will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest evidenced and represented by the Certificates pursuant to Section 103 of the Code. Without limiting the generality of the foregoing, the County agrees to comply with the provisions of the Tax Certificate. This Covenant shall survive the payment in full or defeasance of the Certificates.

Insurance. The County shall procure or cause to be procured and maintain or cause to be secured and maintained at all times with insurers of recognized responsibility or through a program of self-insurance or self-funding to the extent specifically permitted in the Sublicense Agreement, such coverage on the Equipment as required by the Sublicense Agreement. Such insurance shall consist of a policy or policies of insurance against loss or damage to the Equipment known as "all risk," including flood, but excluding earthquake, which shall be maintained at any time in an amount per occurrence at least equal to the lesser of (i) the cumulative replacement values of the Equipment and, in the case of a policy covering more than the Equipment, as permitted by the next succeeding sentence, any other property which is the subject of a lease, installment purchase agreement or other financing arrangement for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") or (ii) the unpaid principal or face amounts due on all Obligations and Certificates which are Outstanding; provided that with the consent of the Insurer, the amount of coverage described in this sentence may be reduced to a smaller amount if an insurance consultant or insurance broker retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot, flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. Such insurance may be in the form of a policy which covers the Equipment and similarly situated equipment or personal property leased or owned by the

County which may be limited in an amount per occurrence in the aggregate to the amount required by the preceding sentence. Such insurance may at any time include a deductible clause providing for a deductible not to exceed \$100,000 for any one loss (except for flood, in which case the deductible may not exceed \$250,000 for any one loss). The County may obtain such coverage as a joint insured with one or more other public agencies located within or without the County of San Diego which may be limited in an amount per occurrence in the aggregate for all insureds as described in the first sentence under this heading. The County is, however, under no obligation to provide insurance against loss or damage occasioned by the perils of earthquake.

The County shall collect, adjust and receive all moneys which may become due and payable under any policies contemplated by the Sublicense Agreement, and, may compromise any and all claims thereunder and shall transfer the net proceeds of such insurance as provided in the Sublicense Agreement or in the Trust Agreement. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County.

Any insurance policy issued in accordance with the foregoing shall be so written or endorsed as to make losses, if any, payable to the County, the Corporation and the Trustee as their respective interests may appear and the net proceeds of the insurance in accordance with the foregoing shall be applied as provided in the Sublicense Agreement. The net proceeds, if any, of the insurance policy described in the foregoing shall be payable to the County for deposit in the Insurance Proceeds and Condemnation Awards Fund. Each insurance policy described in the foregoing shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Corporation or the Trustee without first giving written notice thereof to the Corporation and the Trustee at least 30 days in advance of such intended cancellation or modification.

Notwithstanding the above provisions, as an alternative to providing the insurance required above, the County may, with the consent of the Insurer, provide a self-insurance or self-funding method or plan of protection for any part or all of the requirements for such insurance and, through such a plan or method, provide for deductible or retention amounts greater than those contemplated above. Any such self-insurance or self-funding maintained by the County as described in the foregoing shall comply with the following terms:

(1) the self-insurance or self-funding program shall be approved by an Insurance Consultant;

(2) the self-insurance or self-funding program shall include a reasonable claims reserve fund out of which each self-insured or self-funded claim and any deductible amount authorized above shall be paid; prior to the end of the first Lease Year, the adequacy of each such fund shall be evaluated by an Insurance Consultant who shall also evaluate the appropriateness of the reserving methods and practices employed in establishing and maintaining each such fund; any deficiencies in any claims reserve fund shall be remedied in accordance with the recommendation of the Insurance Consultant and any recommended changes in the reserving methods or practices shall be adopted in accordance with the recommendation of the Insurance Consultant; after the first Lease Year, at least annually and not later than January 31 of each year that is a Lease Year, the County shall provide to the Trustee a report by either the independent accountants which provide the audit report on the County's annual audited financial statements or by an Insurance Consultant, as selected by the County, as to the appropriateness of the reserving and self-funding methods and practices employed by the County in funding the claims funds, and any changes recommended by the report shall promptly be implemented by the County;

(3) the claims reserve fund shall be held in a separate fund by the County but may be invested as other County funds are invested in the San Diego County Pooled Investment Fund; and

(4) in the event the self-insurance or self-funding program shall be discontinued, the soundness of its claim and deductible or retention reserve fund, as determined by the Insurance Consultant, shall be maintained.

The County shall file a Certificate of the County with the Trustee and the Insurer not later than January 31 of each year certifying that the insurance policies required by the foregoing are in full force and effect and that the Corporation and/or the Trustee is named as a loss payee on each insurance policy which the Sublicense Agreement requires to be so endorsed. The County will provide the Insurer with copies of such insurance policies upon request. The Trustee shall have no responsibility whatsoever for determining the adequacy of any insurance required under the Sublicense Agreement.

Advances. In the event the County shall fail to maintain the full insurance coverage required by the Sublicense Agreement or shall fail to keep the Financed Property in good repair and operating condition, the Corporation may (but shall be under no obligation to) purchase the required policies of insurance and pay the premiums on the same or may make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced therefor by the Corporation shall become Additional Rental, which amounts the County agrees to pay within 30 days of a written request therefor, together with interest thereon at the maximum rate allowed by law, subject in all cases to the availability of appropriated funds.

Damage, Destruction and Condemnation; Use of Net Proceeds.

If prior to the termination of the term of the Sublicense Agreement (i) the Equipment or any part thereof is damaged (each of which is hereinafter called "Damaged Improvements") by a peril covered by a policy of insurance described in the Sublicense Agreement (an "Insured Peril"), or (ii) title to, or the temporary use of, the Equipment or any portion thereof or the estate of the County or the Corporation in the Financed Property or any portion thereof (each of which is hereinafter called "Condemned Improvements") shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority (a "Condemnation Event"), or (iii) the Financed Property or any part thereof is the subject of an action, suit or proceeding which results in a damage award or monetary settlement (an "Adjudicated Claim"), then the County and the Corporation will cause the Net Proceeds of any insurance claim, condemnation award or monetary settlement damage award to be transferred to the County for deposit in the Insurance Proceeds and Condemnation Awards Fund established pursuant to the Trust Agreement and applied as follows:

Net Proceeds Exceeding Costs. Within 120 days of the date of said Insured Peril or Condemnation Event, the County shall obtain a written estimate(s) of the (i) cost of the repair, replacement and reconstruction of the Damaged Improvements or Condemned Improvements (collectively referred to as the "Reconstruction"), and (ii) Net Proceeds available to pay such costs. Copies of such estimate(s) shall be made available to the Corporation at the Corporation's request. If the 120 day period is insufficient to obtain said estimates, the period shall be reasonably extended by the Chief Financial Officer. If the Net Proceeds equal or exceed the estimated costs of Reconstruction, the Damaged Improvements or Condemned Improvements shall be repaired, replaced and reconstructed to the same or better quality as existed before the damage occurred. The County shall commence and manage the Reconstruction and shall complete the Reconstruction as soon as reasonably possible after the occurrence of such damage.

Any balance of Net Proceeds remaining after the Reconstruction has been completed may be used by the County for any lawful purpose.

Costs Exceeding Proceeds. If the estimated costs of Reconstruction exceed the Net Proceeds, the County, in its sole discretion, may elect to budget and appropriate to the Reconstruction the amount of such excess, whether the same is greater or less than the estimated excess, and to manage the Reconstruction as set forth in the Sublicense Agreement. The County shall exercise this election by written notice thereof delivered to the Corporation within 30 days after the County obtains said written estimate(s).

Net Proceeds Sufficient to Repay All Certificates. If the County does not exercise the election to reconstruct in accordance with the provisions described in the previous paragraph and Net Proceeds are at least sufficient, when invested in accordance with the Trust Agreement, to repay all Outstanding Certificates at maturity, the Net Proceeds shall be deposited with the Trustee with directions to invest and hold the proceeds in accordance with the Trust Agreement and repay all Outstanding Certificates, all in the manner provided by the Trust Agreement, whereupon the early termination provisions of the Sublicense Agreement shall be applicable. If the Net Proceeds exceed the amount necessary to make such a deposit with the Trustee, the County shall be entitled to any excess amount of Net Proceeds remaining and may use the same for any lawful purpose.

Net Proceeds Insufficient to Prepay All Certificates. If the County does not exercise its election to reconstruct in accordance with the provisions described under the heading "Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds - Costs Exceeding Proceeds" above and Net Proceeds are insufficient to defease to maturity all Outstanding Certificates pursuant to the Trust Agreement, the Net Proceeds shall be transferred to the Trustee with directions to apply the proceeds to the Base Rental Payment Fund established under the Trust Agreement to pay principal of and interest on the Certificates, when due, until exhausted, with interest which is due being paid before the payment of any principal which is due. Partial payments shall be pro-rated among Owners based upon the principal amount of Certificates held.

Management of Reconstruction. If the Financed Property or any part thereof becomes Damaged Improvements or Condemned Improvements, the County shall promptly cause, manage and supervise any Reconstruction. Nothing in this paragraph shall be construed to preclude the County or the Corporation from agreeing to issue a joint contract(s) for, or otherwise cooperating in, the Reconstruction of any of the Damaged Improvements or Condemned Improvements.

Events of Defaults and Remedies

Defaults. The following events are "events of default" under the Sublicense Agreement and the terms "event of default" and "default" shall mean, whenever they are used in the Sublicense Agreement, any one or more of the following events:

- (1) The County shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the Sublicense Agreement, provided that the failure of the Board to budget and appropriate funds sufficient to pay the Base Rental Payments pursuant to the Sublicense Agreement shall not constitute an event of default;

(2) The County shall fail to pay any item of Additional Rental when the same shall become due and payable pursuant to the Sublicense Agreement, provided that the failure of the Board to budget and appropriate funds sufficient to pay the Additional Rental payments pursuant to the Sublicense Agreement shall not constitute an event of default; or

(3) The County shall breach any other terms, covenants or conditions contained in the Sublicense Agreement or in the Trust Agreement, and shall fail to remedy any such breach with all reasonable dispatch within a period of 30 days after written notice thereof from the Corporation to the County; provided, however, that if the failure stated in the notice cannot be corrected within such period, then the Corporation shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the County within such period and is diligently pursued until the default is corrected, and provided further that the failure of the Board to budget and appropriate funds sufficient to pay the Base Rental Payments and Additional Rental payments pursuant to the Sublicense Agreement shall not constitute an event of default.

Upon the happening of any of the events specified in subsection (1) or (2) of this section (in either case an "Event of Default"), it shall be lawful for the Corporation or its assignee, subject to the terms of the Sublicense Agreement, to exercise any and all remedies available or granted to it pursuant to law or under the Sublicense Agreement.

The Corporation or its assignee, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(1) To terminate the Sublicense Agreement in the manner hereinafter described on account of default by the County, notwithstanding any retaking of possession or re-letting of the Financed Property as hereinafter described for in subparagraph (2), and to retake possession of the Financed Property. In the event of such termination, the County agrees to surrender immediately possession of the Financed Property, without let or hindrance, and to pay the Corporation or its assignee all damages recoverable at law that the Corporation or its assignee may incur by reason of default by the County, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such retaking possession of the Financed Property. Neither notice to pay rent nor to deliver up possession of the Financed Property given pursuant to law nor any proceeding in unlawful detainer, or otherwise, brought by the Corporation or its assignee for the purpose of obtaining possession of the Financed Property nor the appointment of a receiver upon initiative of the Corporation or its assignee to protect the Corporation's or its assignee's interest under the Sublicense Agreement shall of itself operate to terminate the Sublicense Agreement, and no termination of the Sublicense Agreement on account of default by the County shall be or become effective by operation of law or acts of the parties to the Sublicense Agreement, unless and until the Corporation or its assignee shall have given written notice to the County of the election on the part of the Corporation or its assignee to terminate the Sublicense Agreement.

(2) Without terminating the Sublicense Agreement, to collect each installment of rent as it becomes due, subject to the County's right for any reason not to appropriate funds sufficient to pay all amounts of Base Rental Payments and Additional Rental Payments coming due in a fiscal year and thereby to terminate the Sublicense Agreement, and enforce any other term or provision of the Sublicense Agreement to be kept or performed by the County. In the event the Corporation or the Trustee does not elect to terminate the Sublicense Agreement in the manner provided for in subparagraph (1) then, subject to the County's right for any reason not to appropriate funds sufficient to pay all amounts of Base Rental Payments and

Additional Rental Payments coming due in a fiscal year and thereby to terminate the Sublicense Agreement, the County shall remain liable and shall keep or perform all covenants and conditions under the Sublicense Agreement to be kept or performed by the County and, to pay the rent to the end of the term of the Sublicense Agreement or, in the event that the Financed Property is re-let, to pay any deficiency in rent that results therefrom but only for the then current fiscal year for which rent has been budgeted and appropriated pursuant to the Sublicense Agreement. The Corporation or the Trustee may, subject to the terms of the Software Licenses, re-let the Financed Property in the event of such reentry without effecting a surrender of the Sublicense Agreement, and no acts of the Corporation or the Trustee in effecting such re-letting shall constitute a surrender or termination of the Sublicense Agreement until the end of the then current fiscal year for which rent has been budgeted and appropriated irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that on the contrary, in the event of such default by the County, the right to terminate the Sublicense Agreement prior to the end of the fiscal year for which rent has been budgeted and appropriated shall vest in the Corporation or the Trustee to be effected in accordance with the Sublicense Agreement.

The County under the Sublicense Agreement waives any and all claims for damages caused or which may be caused by the Corporation or its assignee in taking possession of the Financed Property as provided in the Sublicense Agreement and all claims for damages that may result from the destruction of or injury to the Financed Property and all claims for damages to or loss of any property belonging to the County, or any other person, that may be on or about the Financed Property.

In addition to any default resulting from breach by the County of any agreement, condition, covenant or term of the Sublicense Agreement, if (1) the County's interest in the Sublicense Agreement or any part thereof be assigned, sublet or transferred without the written consent of the Corporation (except as otherwise permitted by the Sublicense Agreement), either voluntarily or by operation of law; or (2) the County or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the County asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the County shall make a general or any assignment for the benefit of its creditors; or (3) the County shall abandon or vacate the Financed Property or any portion thereof (except as permitted by Section 2.04); then in each and every such case the County shall be deemed to be in default under the Sublicense Agreement.

Amendments to Sublicense Agreement

The Sublicense Agreement may be amended in writing as may be mutually agreed by the Corporation and the County, subject to the written approval of the Trustee; provided, that no such amendment which materially adversely affects the rights of the Owners shall be effective unless it shall have been consented to by either the Insurer, if not then in default under its insurance policy, or the Owners of more than 50% in aggregate principal amount of the Certificates Outstanding, and provided further, that no such amendment shall (a) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment, without the prior written consent of the Owner of each Certificate so affected, or (b) reduce the percentage of the value of the Certificates Outstanding the consent of the Owners of which is required for the execution of any amendment of the Sublicense Agreement.

The Sublicense Agreement and the rights and obligations of the Corporation and the County thereunder may also be amended or supplemented at any time by an amendment thereof or supplement thereto, which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and, subject to the written approval of the Insurer, only for any one or more of the following purposes --

(1) to add to the agreements, conditions, covenants and terms required by the Corporation or the County to be observed or performed in the Sublicense Agreement and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the County, or to surrender any right or power reserved to or conferred under the Sublicense Agreement on the Corporation or the County, and which in either case shall not materially adversely affect the interests of the Owners;

(2) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Sublicense Agreement or in regard to questions arising thereunder which the Corporation or the County may deem desirable or necessary and not inconsistent therewith, and which shall not materially adversely affect the interests of the Owners;

(3) to effect a Substitution or Removal in accordance with the Sublicense Agreement; or

(4) to make any other addition, amendment or deletion which does not materially adversely affect the interests of the Owners.

Discharge of County

Upon the payment to the Owners of all Outstanding Certificates in accordance with the Trust Agreement, all of the obligations of the County under the Sublicense Agreement shall thereupon cease, terminate and become void and shall be discharged and satisfied; provided, however, if any Outstanding Certificates shall be deemed to have been paid by virtue of a deposit contemplated by the provisions relating to defeasance in the Trust Agreement, then the obligation of the County under the Sublicense Agreement to make Base Rental Payments shall continue in full force and effect until all Outstanding Certificates have in fact been paid, but such payments shall be made solely and exclusively from moneys and securities deposited with the Trustee as contemplated by the provisions relating to defeasance in the Trust Agreement, and that shall be the sole source of satisfaction of the County's obligation to make Base Rental Payments. The time period for giving notice by the County to the Corporation and the Trustee specified under the heading "Obligation Subject to Appropriation; Nonappropriation - Net Proceeds Sufficient to Pay All Certificates" shall not apply incident to the payment to the Owners of all Outstanding Certificates in accordance with the Trust Agreement.

ASSIGNMENT AGREEMENT

The Corporation will assign its rights to receive Base Rental Payments from the County under the Sublicense Agreement to the Trustee for the benefit of the Owners of the Certificates pursuant to the Assignment Agreement, the terms of which are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the Assignment Agreement.

Assignment

The Corporation under the Assignment Agreement unconditionally grants, transfers and assigns to the Trustee without recourse (i) all right, title and interest of the Corporation as lessee, assignee and sublicensee under the Lease and the Sublicense Assignment; (ii) all rights of the Corporation to receive the Base Rental Payments scheduled to be paid by the County under and pursuant to the Sublicense Agreement for the benefit of the Owners of the Certificates; (iii) all rents, profits and products from the Equipment and the Software Licenses (as defined in the Lease and the Sublicense Assignment respectively) to which the Corporation has any right or claim whatsoever under the Sublicense Agreement; (iv) the right to take all actions and give all consents under the Sublicense Agreement; (v) the right of access more particularly described in the Sublicense Agreement; and (vi) any and all other rights and remedies of the Corporation in the Sublicense Agreement as lessor thereunder for the purpose of (a) paying all sums due and owing to the Owners of the Certificates under the terms of the Trust Agreement, and (b) performing and discharging each agreement, covenant and obligation of the County contained in the Sublicense Agreement and in the Trust Agreement; provided that the obligation of the County to make Base Rental Payments and Additional Rental payments coming due in any particular fiscal year under the Sublicense Agreement shall be absolutely subject in all respects to the Board of Supervisors having duly budgeted and appropriated funds sufficient to pay the Base Rental Payments and Additional Rental payments coming due in such fiscal year, and the County through its Board of Supervisors shall have the right, to be exercised in its sole and absolute discretion, for any reason, not to budget and appropriate such funds.

Acceptance

The Trustee under the Assignment Agreement accepts the assignment for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Base Rental Payments shall be applied and all such rights so assigned shall be exercised by the Trustee as provided in the Trust Agreement.

Conditions

The Assignment Agreement shall confer no rights and shall impose no obligations upon the Trustee beyond those expressly provided in the Trust Agreement. The Trustee shall not be responsible for the accuracy of the recitals in the Assignment Agreement. The Trustee is entering into the Assignment Agreement solely in its capacity as Trustee under the Trust Agreement and not in its individual or personal capacity. The Trustee is not responsible for the duties or obligations of the Corporation under the Lease or the Sublicense Agreement or for any recitals, covenants, representations or warranties of the Corporation thereunder.

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APPENDIX D

BOOK-ENTRY SYSTEM

General

Purchasers of beneficial ownership interests in the Certificates will not receive certificates representing their interests in the Certificates purchased. The Underwriters will confirm original issuance purchases with statements containing certain terms of the Certificates purchased.

The following information concerning DTC and DTC's book-entry system has been obtained from sources the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

The Certificates will be held by DTC as securities depository. The ownership of one fully registered Certificate for each maturity of Certificates, each in the aggregate principal amount of such maturity, is registered in the name of Cede & Co., as nominee for DTC. DTC, an automated clearinghouse for securities transactions, will act as securities depository for the Certificates. DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

Beneficial ownership interests in the Certificates may be purchased by or through DTC Participants. Such DTC Participants and the persons for whom they acquire interests in the Certificates as nominees will not receive certificated Certificates, but each such DTC Participant will receive a credit balance in the records of DTC in the amount of such DTC Participant's interest in the Certificates, which will be confirmed in accordance with DTC's standard procedures. Each such person for whom a DTC Participant acquires an interest in the Certificates, as nominee, may desire to make arrangements with such DTC Participant to receive a credit balance in the records of such DTC Participant, and may desire to make arrangements with such DTC Participant to have notices of prepayment, or all other communications of the County to DTC which may affect such persons, forwarded in writing by such DTC Participant and to have notifications made of all payments of principal or interest on his beneficial interest. NEITHER THE COUNTY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE CERTIFICATES IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OR PREPAYMENT PRICE OF OR INTEREST REPRESENTED BY THE CERTIFICATES; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO CERTIFICATE HOLDERS UNDER THE TRUST AGREEMENT; THE SELECTION BY DTC OR ANY DTC PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL PREPAYMENT OF THE CERTIFICATES; OR ANY OTHER ACTION TAKEN BY DTC AS CERTIFICATE HOLDER.

The County and the Trustee may treat DTC (or its nominee) as the sole and exclusive owner of the Certificates registered in its name for the purposes of payment of the principal or interest represented by the Certificates, giving any notice permitted or required to be given to registered owners under the Trust Agreement, registering the transfer of the Certificates, or other action to be taken by registered owners and for all other purposes whatsoever, and shall not be affected by any notice to the contrary. Conveyances of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Interest and principal will be paid by the Trustee to DTC, or its nominee. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants or the Indirect Participants.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE CERTIFICATES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OR HOLDERS OF THE CERTIFICATES (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE CERTIFICATES.

Discontinuance of DTC Services

In the event (i) DTC, including any successor as securities depository for the Certificates, determines not to continue to act as securities depository for the Certificates; (ii) DTC shall no longer so act and gives notice to the Trustee of such determination, DTC services will be discontinued. If the County determines to replace DTC with another qualified securities depository, the County shall prepare or direct the preparation of a new single, separate, fully registered Certificate for each of the maturities of the Certificates, registered in the name of such successor or substitute qualified securities depository or its nominee or make such other arrangement acceptable to the County, the Trustee and the successor securities depository, or its nominee or make such other arrangement acceptable to the County, the Trustee and the successor securities depository as are not inconsistent with the terms of the Trust Agreement. If the County fails to identify another qualified securities depository to replace DTC then the Certificates shall no longer be restricted to being registered in the Certificate registration books in the name of Cede & Co., but shall be registered in such names as are requested in a certificate of the County, in accordance with the Trust Agreement.

APPENDIX E

FORM OF LEGAL OPINION

Upon the execution and delivery of the Certificates, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, and Harrison, Taylor and Bazile, Oakland, California, Co-Special Counsel, propose to issue their approving opinion in substantially the following form:

[Date of Delivery]

County of San Diego
1600 Pacific Highway
San Diego, California 92101

\$51,620,000
County of San Diego
Certificates of Participation
(2000 Information Technology System Financing)
(Final Opinion)

Ladies and Gentlemen:

We have acted as Co-Special Counsel in connection with the execution and delivery of \$51,620,000 aggregate principal amount of County of San Diego Certificates of Participation (2000 Information Technology System Financing) (the "Certificates"). In such connection, we have reviewed a Lease, dated as of April 1, 2000 (the "Lease"), between the County of San Diego (the "County") and the San Diego County Capital Asset Leasing Corporation (the "Corporation"), an Assignment of Sublicense (the "Sublicense Assignment") dated as of April 1, 2000, by between the County and the Corporation, an Equipment Lease and Sublicense Agreement, dated as of April 1, 2000 (the "Sublicense Agreement"), by between the County and the Corporation, a Trust Agreement, dated as of April 1, 2000 (the "Trust Agreement"), by and among U.S. Bank Trust National Association (the "Trustee"), the County and the Corporation, a Tax Certificate of the County, dated as of the date hereof (the "Tax Certificate"), an Assignment Agreement, dated as of April 1, 2000 (the "Assignment Agreement"), between the Corporation and the Trustee, opinions of counsel to the County, the Corporation and the Trustee, certificates of the County, the Trustee, the Corporation and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

Certain agreements, requirements and procedures contained or referred to in the Trust Agreement, the Lease, the Sublicense Assignment, the Sublicense Agreement, the Tax Certificate, the Assignment Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Certificate or the interest components of any Base Rental Payment if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have assumed without undertaking to verify the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Lease, the Sublicense Assignment, the Sublicense Agreement, the Trust Agreement, the Tax Certificate and the Assignment Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest portion of Base Rental Payments to be included in gross income for federal income tax purposes.

In addition, we call attention to the fact that the rights and obligations under the Certificates, the Lease, the Sublicense Assignment, the Sublicense Agreement, the Trust Agreement, the Tax Certificate and the Assignment Agreement and their enforceability are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject the lien of the Lease, the Sublicense Assignment, the Sublicense Agreement, the Trust Agreement or the Assignment Agreement or the accuracy or sufficiency of the description of any such property contained therein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The County is a political subdivision organized and existing under and by virtue of the Constitution and laws of the State of California.
2. The Lease, the Sublicense Assignment, the Sublicense Agreement and the Trust Agreement have been duly executed and delivered by the County and, assuming due authorization, execution and delivery by the other parties thereto, constitute valid and binding obligations of the County.
3. The obligation of the County to make the Base Rental Payments from funds of the County lawfully available therefor constitutes a valid and binding obligation of the County, does not constitute a debt of the County or of the State of California within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the County or the State of California is obligated to levy or pledge any form of taxation or for which the County or the State of California has levied or pledged any form of taxation.
4. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

5. The portion of each Base Rental Payment designated as and constituting interest paid by the County under the Sublicense Agreement and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. We express no opinion as to federal (or State of California personal) income tax consequences of any payments received with respect to the Certificates following termination of the County's possession under the Sublicense Agreement as a consequence of a determination by the Board of Supervisors of the County not to budget and appropriate funds sufficient to pay the Base Rental Payments and Additional Rental Payments coming due in a fiscal year. Such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the accrual or receipt of such interest or the ownership or disposition of the Certificates.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

HARRISON, TAYLOR AND BAZILE

Per

Per

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APPENDIX F
FORM OF CERTIFICATE INSURANCE POLICY

Ambac

Municipal Bond Insurance Policy

Ambac Assurance Corporation
c/o CT Corporation Systems
44 East Mifflin Street, Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, New York 10004
Telephone: (212) 668-0340

Issuer:

Policy Number:

Bonds:

Premium:

Ambac Assurance Corporation (Ambac) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Ambac will make such payments to the Insurance Trustee within one (1) business day following notification to Ambac of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholder's right to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of Ambac or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to Ambac all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer of the Bonds has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer

Ambac

Endorsement

Ambac Assurance Corporation
c/o CT Corporation Systems
44 East Mifflin Street, Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, New York 10004
Telephone: (212) 668-0340

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

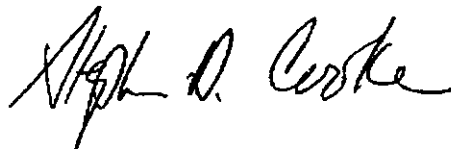
Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation



President



Secretary

Authorized Representative

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